

DALLAS TIMES HERALD
5 DECEMBER 1979

E-Systems to sue Iran for work on 707 jets

By ROBERT DODGE
Staff Writer

E-Systems Inc. said it will file suit today in federal court seeking approximately \$15.2 million in damages and cancellation of \$4.4 million in letters of credit from the Government of Iran and the Bank of Melli Iran.

The Dallas electronics company said it would file the suit in U.S. District Court in Dallas charging that Iran defaulted on a 1977 contract in which the company's Greenville Division was to install communication and navigation equipment on two Boeing 707 jets owned by the Persian Gulf nation.

"We filed the lawsuit to protect the company and its shareholders' property interests in these aircraft," John M. Dixon, chairman and president, said in a prepared statement. "We are asking the court to declare the contract in default and to permit foreclosure of liens existing on the aircraft. Once authorized, the aircraft will be sold at auction."

In its one-page statement issued Tuesday, E-Systems said the value of the contract, originally set at \$28 million, had escalated in value to about \$35 million by the time Iran defaulted in November 1978. The amounts to be claimed by E-Systems, the company said, represent sums due under the contract and other unspecified damages.

An E-Systems spokesman, who asked to remain unnamed, declined to explain why Iran defaulted on the project, how the planes would have been used or what efforts the com-

pany has made in the last year to recover the money it is owed.

"The company is being careful about the answers to questions due to the effect on legal proceedings," the spokesman said.

But according to a Pentagon source familiar with the contract, the two tanker-type jets were to be equipped with sophisticated electronic hardware for use in a "James Bond" like program called IBEX in which the latest American technology was being applied in Iran for deposed Shah Mohammad Reza Pahlavi with the assistance of the Central Intelligence Agency.

Under the \$500 million program, the Shah wanted to establish a border surveillance system for Iran. The project called for 11 ground monitoring posts, six airborne units and several mobile ground units. Bids were submitted by four U.S. corporations including E-Systems, Rockwell, GTE Sylvania and Mechanics Research Inc.

IBEX, which according to some press accounts, involved the laundering of millions of dollars through Swiss bank accounts to pay for work done by American corporations, was started in 1974 when the Shah decided he wanted the best electronic ears and eyes on his borders.

Informed sources said the 707 jets were flown to E-Systems' Greenville facility from the Boeing Co. in Seattle in late 1977. While E-Systems has declined to say how the planes were to be used by Iran, a company spokesman said Tuesday that the aircraft were being outfitted with sophisticated

navigation and communication systems.

No work is currently being done on the planes other than that needed to preserve the aircraft, the company said.

The IBEX program has been beset with troubles since it began. A Jan. 2, 1977, story by The Washington Post detailed instances of corruption, payments to U.S. firms from Swiss bank accounts and the Aug. 28, 1976, murder of three Rockwell International employees connected with the project in Tehran.

The CIA has also declined to answer questions regarding the program.

E-Systems was one of many United States firms to have business with the country before the fall of the Shah. In most cases, firms selling military hardware to Iran were protected against losses under the Foreign Military Sales program which required Iran to establish a trust fund and make pre-payments on projects. But sources close to the Defense Department said the E-Systems work was not a part of the military sales program and did not qualify for any of the trust fund money.

The company declined to say how it was paid or if the Bank of Melli — the government owned bank of Iran — had failed to honor letters of credit that would have provided E-Systems payment for its work. However, the company did say loss of the payments would not have any "material adverse effect on its financial statements" because of a \$1.5 million reserve fund

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JEFFREY STEIN

A sweetheart deal for E-Systems

THIS IS A STORY ABOUT big guys and little guys. The big guy in the story is the Dallas-based multinational electronics company, E-Systems. In the five years since it was taken over by a group of former high-level defense and intelligence officials, E-Systems has become a favored contractor for a series of highly sophisticated electronic warfare projects, and it has skyrocketed into the *Fortune* 500, with annual sales of over \$320 million.

The little guy is the Bristol Electronics Company of New Bedford, Massachusetts, owned by Stanley B. Revzin, the son of Polish-Russian immigrants. Put together on a shoestring in 1960, Bristol gradually built up a trade in marine radios and other electronic gadgetry until, by 1973, the company employed 180 workers and grossed \$4 million a year in sales.

But since 1973, when he began to compete with E-Systems for defense contracts, Revzin's business has taken a nose dive: the company is down to 50 employees and will be lucky to gross \$1 million in sales this year.

Stanley Revzin now has a chance to tell the public and Congress how that happened. At a hearing sponsored by Senators William Proxmire (D-Wis.) and Edward Brooke (R-Mass.), the Senate Banking Committee will look into whether the Pentagon follows the rules in handing out defense contracts.

Revzin believes, and the committee strongly suspects, that the rules have

INQUIRY MAGAZINE
16 October 1978

been broken. Pulling together information previously gathered by other government investigators, they have found that:

- the U.S. Army has consistently favored E-systems over smaller companies, such as Bristol, that offered lower bids on contracts;
- the army has changed contract specifications at the last minute to steer to E-Systems contracts that should have gone elsewhere;
- the army awarded E-Systems a contract to build an item at a low unit price, and then later allowed it to exercise an option to build many more of the same items at much higher prices;
- the company has possibly had the benefit of inside information from army officials who later became its employees.

THE PROCESS THAT EVENTUALLY led to Stanley Revzin's sad fortunes began 12 years ago, when the U.S. Army began proping up a failing Indiana electronics company, known as MEMCOR, with millions of dollars of cash grants, unsecured loans, and contracts to build electronic gear. Government welfare to the corporation thus indirectly encouraged an outside takeover. The LTV-Electrosystems Company stepped in and grabbed MEMCOR. But LTV itself had troubles, and even with the continued flow of government largesse, couldn't make a go of it. In 1973, the company, now named E-Systems, was bought by a group of investors headed by a former assistant comptroller of the Defense Department, John W. Dixon. Lloyd K. Lauderdale, once head of the Central Intelligence Agency's science and technology directorate, was installed as vice president, while a former CIA director, William F. Rayborn, was recruited for the board.

MEMCOR and Bristol had competed for contracts before, with Bristol generally winning out, but the new group of E-Systems owners would soon prove to be overpowering. In 1973, the army had solicited bids from several companies for a contract to build field radios for the South Korean armed forces under the foreign military sales program. For the first two rounds of sealed bidding, Bristol came in with the lowest price, E-Systems the highest. During the third and fourth round of biddings, however, the army made three changes in the contract, during

permitted to boost its prices for the unit considerably.

Bristol's Revzin complained to the army that his bid—including the option—was much lower than E-Systems's. But even with Revzin, his local congressman, Gerry Studds (D-Mass.), one of his senators, Brooke, and the General Accounting Office looking on, the army went ahead and made contract "modifications" (not "options") that allowed E-Systems to build, at higher prices, twice as many radios as in the original contract, nearly quadrupling the total value of the deal to a whopping \$11 million.

Representative Studds asked the Justice Department to investigate this award. Within weeks, the Justice Department replied that it had found "no grounds" to institute a criminal investigation.

IN THE SUMMER OF 1976, Representative Jack Brooks (D-Tex.), chairman of the House Government Operations Committee, held hearings on the matter and uncovered a number of clues to explain why the army gave E-Systems such kindly treatment. "The circumstances seem to point to a predetermination on the part of the army that E-Systems would receive the contract," Brooks remarked to Assistant Secretary of the Army Harold Brownman.

But Brownman had another explanation. "I believe that this is just a good case of sloppy workmanship and nothing else," he replied. "I certainly hope so."

What went unstated was that Brownman, who had come to the Pentagon after the disputed contract had been awarded, had been a vice president at E-Systems. But the man he had replaced in the Pentagon job, the man who had been in charge of awarding the E-Systems contract, had gone on later to become a corporate vice president at E-Systems, replacing Brownman. "Just a beautiful example of how not to do business," sputtered an obviously frustrated Brooks.

What Brooks didn't know at the time

Seoul Pressed U.S. Firm To Help Pay Park's Costs

By Charles R. Babcock
Washington Post Staff Writer

The South Korean government put pressure on a U.S. defense contractor in 1973 to help pay the costs of Tong-sun Park's lobbying activities in Congress.

The company—E-Systems Inc., of Dallas—was told by a Korean ambassador that Park had helped it win a contract to make field radios for the Korean army.

Officers of E-Systems say the company refused to make the suggested payments to Park, who has since been indicted as an agent of the South Korean government. But E-Systems did hire other Korean businessmen a few months later. And federal investigators have found that much of the more than \$1 million paid to these other Korean consultants was converted to cash and funneled back to an embassy official in Washington.

Some of the money, investigators believe, was used to make the same kind of illegal payments to American officials that Park has been accused of making.

E-Systems officials contend the commission payments were legitimate. They said the company did not know what happened to the money that they paid to the Korean businessmen.

E-Systems was initially approached by the Koreans through a letter, a copy of which The Washington Post has obtained from non-government sources.

The bluntly worded letter, dated April 11, 1973, was sent by Korean ambassador-at-large Yang You Chan to former Defense Department counsel John (Jeff) Davis. Davis later forwarded it to E-Systems. The letter claimed that Park had intervened to "pacify the congressional sup-

porters" of a rival of E-Systems, thereby clearing the way for E-Systems' selection by the Korean government as a supplier of military radios.

"Since it was Tongsun's intervention that caused the project to be revived and since it is his guidance to which we look for our Washington operation (Congressional Military Appropriations), it goes without saying that it would be most advisable for you to recommend to your friends at E-System that they should accom-

date Tongsun's requirements as well as E-System can, so that he can better serve his role," Yang wrote. (The misspellings are in the original.)

E-Systems is a major contractor for the U.S. intelligence agencies, and top officials often move back and forth between those agencies and the firm.

E-Systems officials have said they declined the overtures from Park. Four months later, however, the firm hired the Korean Research Institute, a group which included a close associate of President Park Chung Hee, to "assist" E-Systems in Korea.

Over the next three years, E-Systems paid \$1.4 million in commissions to the KRI, through two Korean-born grocers who were the consultants' representatives in Los Angeles.

It is unclear what the KRI did to earn the money.

There are indications that as much as \$1 million of these payments may have been converted to cash and funneled back to Col. Lee Hwan, a military attaché at the Korean embassy in Washington.

Sources familiar with the investigation, for example, said that Howard Lee, one of the KRI's men in Los Angeles, told the Securities and Exchange Commission that he took about \$300,000 in cash out of the KRI bank account in Los Angeles in early 1976 and delivered it to his uncle, Col. Lee.

An earlier KRI representative in Los Angeles, Yoo Jong Ho, is Col. Lee's brother-in-law. Thus, it is considered likely that the more than \$700,000 in previous E-Systems payments were handled the same way.

Col. Lee insisted in a recent telephone interview that he "didn't make even 1 cent of illegal payments in the United States."

When asked what he did with the money then, Lee said only, "That's a family matter, a private matter."

The colonel, who was a military procurement officer in Korea at the time of the E-Systems contract, also emphatically denied suggestions that he was part of the Korean Central Intelligence Agency. "Not even one day or one minute have I served with the KCIA," he said.

Lee, 43, complained in the phone conversation that previous news accounts of his involvement in the E-Systems case had hurt his reputation and stalled his expected promotion to general.

He ~~was~~ at first to meet with a Washington Post reporter, but then declined, saying his superiors would not give him permission.

Lee has been at the embassy since May, 1975.

SEC lawyers who have been investigating the propriety of the E-Systems payments for 18 months have said in court papers that they "have reason to believe" that some of the cash was passed on illegally to American officials.

Thus one investigative theory seems to be that the KRI might have been set up by the Korean government as an alternate way of funding the Washington lobbying effort after E-Systems refused to deal with Tongsun Park.

Yang, who wrote the letter reciting Park's prowess as a lobbyist, was the Korean ambassador to Washington in the 1960s and was a close friend of Park's. Yang is now dead. Davis, who is now a Washington lawyer, refused to discuss his role in the incident.

Federal investigators tend to believe Yang wrote the letter to promote Park. There is no indication they have uncovered evidence that the alleged Korean lobbyist unduly influenced congressional backers of E-Systems' competitors, as the Yang letter claimed.

But investigators do find the letter remarkable for its candor about Park's activities in Washington. And they wonder if it shouldn't have made E-Systems suspicious about the later fees in connection with the same Korean radio contract.

Park, who apparently knew Davis and E-Systems' Washington representative Robert C. Smith from his days as a local party giver, was indicted last August on charges he conspired to bribe members of Congress.

He is alleged to have generated the cash for the payoffs from commissions he received as the Korean government's exclusive agent on purchases of U.S. rice.

The Korean government has consistently denied that Park ever had any official connection with the Seoul regime. The Yang letter shows that the former ambassador at least was quite blunt in pointing out such ties.

A team of Justice Department prosecutors in Seoul has been questioning Park about his role in the Korean lobbying scheme in preparation for his later testimony at trials in the United States.

There have been reports that he described payments of some \$750,000 to several former members of Congress.

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THE WASHINGTON MONTHLY
September 1977

The Corrupt M A Case History

by James Henderson

Most people think that government corruption is confined to politicians, and to state and local politicians in particular. Few consider dishonesty a major problem among federal career employees. But the truth is that corruption has become the rule among military career people. It is now assumed that an officer, if he does not continue to work for the government, will join the staff of a military contractor upon retirement. The result is a military procurement process increasingly influenced by the future employment possibilities of the military officers involved. The men in the following example may be innocent of anything other than a conflict of interest, but they are part of a larger pattern that should disturb us all.

June 22, 1976. Room 2154, Rayburn House Office Building. Meeting: National Security Subcommittee of the Committee on Governmental Operations. Subject: Questionable contract for mobile field radios by the Department of the Army.

Assistant Secretary of the Army Harold Brownman, in charge of installations and logistics, is accompanied by two generals and a civilian procurement officer. It is not a good day for Brownman. The contract in question is between the Army, where he now works, and E-Systems, Inc. of Dallas, where he had been a vice president a few years earlier.

"Information received by the subcommittee indicates that normal procedures may not have been followed and that favoritism toward the successful bidder may have been involved," says Rep. Jack Brooks of

James Henderson was a Nieman Fellow last year and is now a reporter for the Dallas Times-Herald.

CHARLESTON, W.VA.
GAZETTE
M - 63,294
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JUL 15 1977

CIA Deal Stinks

For some businesses it pays to do business with the CIA, Rep. Gerry Studds, D-Mass., has discovered.

E-Systems Inc. of Dallas, Tex., does frequent business with various Pentagon agencies, as well as the CIA, and in 1975 it picked up for a relative song Air Asia Ltd., until the purchase a wholly owned CIA company with headquarters on Taiwan.

Although Air Asia's assets exceeded liabilities by \$3.4 million, E-Systems paid \$1.9 million for its new acquisition. Had E-Systems executives been walking along a deserted street and found \$1.5 million in new money, they couldn't have been better or more profitably served. Deals of this kind may be made in Heaven, but they're not made on earth in the free enterprise sector.

This little deal stinks to Heaven. Its smell is so awful, in fact, that this little deal deserves a full scale congressional investigation, after which a federal grand jury may wish to learn if any laws have been broken.

This little deal provides yet another good reason why the CIA's total budget should be public. CIA officials might be less inclined to give away the public's treasure if the public knew just how much of its treasure was doled out annually to the agency.

Finally, this little deal provides yet another reason why much of the CIA's total budget ought to be subject to review of the whole Congress and not just that select committee of specially selected overseers. By the way where was that committee when the CIA was negotiating with itself and giving away the public's money to CIA insiders?

ARTICLE 1 APPROVED
ON PAGE 1-9 Approved For Release 2004/10/13 : CIA-RDP88-01315R000200420001-9THE WASHINGTON STAR (GREEN LINE)
14 JULY 1977

The Nation

CIA Front Firm Sale to Be Probed

The Senate Select Committee on Intelligence will investigate "as part of our regular oversight function," the 1975 sale of a CIA front company to a major government contractor, a committee spokesman said yesterday. And Rep. Gerry Studds, D-Mass., who has been fighting for more information about the deal said the CIA's sale of Air Asia Ltd. to E-Systems Inc. of Dallas, Tex., should be on the agenda of the proposed House Intelligence Committee.

E-Systems, a major supplier of sophisticated electronic equipment to the CIA and the Pentagon, bought Air Asia Ltd. from the CIA for \$1.9 million in cash. An audit of Air Asia, a Taiwan-based aircraft maintenance operation, showed the company's net worth was \$3.4 million on March 31, 1974, 10 months before the sale.

CIA OPERATIONS CENTER

NEWS SERVICE

Date. 13 JUL 77
Item No. 6
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DISTRIBUTION II

UP-078

(CIA SALE)

WASHINGTON (UPI) -- THE CIA SOLD A TAIWAN-BASED AIRCRAFT MAINTENANCE COMPANY WITH A 10-MONTHS PROFIT FIGURE OF MORE THAN \$1 MILLION FOR ONLY \$1.9 MILLION TO A FIRM WITH CLOSE CONTACTS TO THE CIA AND THE DEFENSE DEPARTMENT, REP. GERRY STUDDS, D-MASS., SAID TODAY.

THE NET WORTH OF AIR ASIA WAS \$3.4 MILLION, ACCORDING TO AN AUDIT BY THE GOVERNMENT ACCOUNTING OFFICE CONDUCTED IN 1974 AND SUPPLIED TO STUDDS BY THE CIA. AIR ASIA, PART OF THE AIR AMERICA COMPLEX THE CIA USED AS A COVER FOR SOME OF ITS ASIA OPERATIONS, WAS SOLD TO E-SYSTEMS INC., DALLAS, TEX., JAN. 31, 1975.

STUDDS SAID THE GAO AUDIT SHOWED THE DIFFERENCE BETWEEN THE ASSETS OF AIR ASIA AND THE LIABILITIES WAS \$3.4 MILLION. THE AUDIT ALSO SHOWED AIR ASIA'S PROFITS JUMPED FROM \$61,797 IN THE FISCAL YEAR ENDED MARCH, 1973, TO \$1,353,734 IN THE 10 MONTHS JUST BEFORE THE SALE WAS COMPLETED.

"THIS HIGH PROFIT RESULTED IN THE TRANSFER OF CERTAIN FUNDS TO THE PARENT COMPANY PRIOR TO THE SALE OF AIR ASIA," THE CIA SAID IN A LETTER TO STUDDS. THE CONGRESSMAN SAID HE HAS ASKED THE AGENCY FOR AN EXPLANATION OF THE HIGH PROFITS AND FOR OTHER DETAILS OF THE SALE.

"WE DON'T KNOW WHAT TIP OF THE ICEBERG THIS IS," STUDDS SAID.

STUDDS SAID HE ORIGINALLY BECAME INTERESTED IN E-SYSTEMS WHEN A NEW BEDFORD, MASS., COMPANY LOST OUT FOUR TIMES IN 1973 AND 1974 IN BIDDING TO PRODUCE MOBILE FIELD RADIOS FOR THE U.S. ARMY.

HE SAID AFTER A PROTEST, THE GAO CONCLUDED THE ARMY WAS IN VIOLATION OF ITS OWN REGULATIONS IN SELECTING E-SYSTEMS.

"THEN WE DISCOVERED A CLASSIC SWITCHEROO," HE SAID, "THE ASSISTANT SECRETARY OF THE ARMY FOR INSTALLATIONS AND LOGISTICS BECAME VICE PRESIDENT OF E-SYSTEMS. I BELIEVE THE E-SYSTEMS VICE PRESIDENT THEN TOOK HIS PLACE WITH THE ARMY."

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THE PHILADELPHIA INQUIRER
13 July 1977

Audit shows CIA sold company for \$1.5 million less than its value

Associated Press

WASHINGTON — The CIA sold one of its front companies for \$1.5 million less than its stated net worth, government documents show.

E-Systems Inc. of Dallas, Tex., bought Air Asia Ltd., a CIA-owned firm based in Taiwan, in 1975 for \$1.9 million. An audit of Air Asia showed that the firm's net worth — the amount by which its assets exceeded its liabilities — was \$3.4 million.

E-Systems is a large government contractor that provides sophisticated equipment for the Pentagon, the CIA and other agencies.

Air Asia was sold by Air America, the CIA-owned company that ran airlines in the Far East and Southeast Asia and provided transportation for various CIA projects.

Air Asia did about \$12 million worth of business in 1975, mainly at an aircraft base on Taiwan, where about 2,800 employees do contract maintenance on military and commercial aircraft in the Far East.

The documents on E-Systems' purchase of the firm were released by Rep. Gerry Studds (D., Mass.), who asked the CIA for information about the sale.

The audit Studds released was dated March 31, 1974, by the accounting firm of Coopers & Lybrand, and was an appendix to a classified General Accounting Office report.

John Kumpf, an E-Systems spokesman, said the net worth shown by the audit of Air Asia, dated Jan. 31, 1975. He cited a second Coopers & Lybrand audit of Air Asia, dated Jan. 31, 1975, showing its net worth at \$3.2 million.

He claimed that even that figure was too high.

Nevertheless, Kumpf said, "We're not denying" that Air Asia was a good buy.

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13 July 1977

CIA Sells Air Asia at Bargain Basement Price

Associated Press

A large government contractor purchased a former front company from the CIA for slightly more than half of its net worth, government documents show.

The CIA sold Air Asia, Ltd., to E-Systems Inc. of Dallas, Tex., for \$1.9 million in cash in 1975. The deal was a profitable one for E-Systems, since an audit of the Taiwan-based company showed its net worth was \$3.4 million.

A E-Systems spokesman said the purchase was a good one for the manufacturer of sophisticated electronic gear, but he insisted that Air Asia's net worth was inflated in the audit.

Air Asia was part of Air America, the CIA-owned company that ran airlines in the Far East and Southeast Asia and provided transportation for various CIA projects.

AIR ASIA DID about \$12 million in contract maintenance on military and commercial aircraft in the Far East in 1975, mainly at a huge aircraft base on Taiwan staffed by about 2,800 employees.

Rep. Gerry Studds, D-Mass., asked the CIA for information about the sale. He released the CIA's reply plus the audit dated March 31, 1974, by Coopers and Lybrand, a large accounting firm. The audit was an appendix to a classified General Accounting Office report.

John Kumpf, an E-Systems' spokesman, said the net worth shown by the audit was overstated. He said a second Coopers and Lybrand audit of the Air Asia, dated Jan. 31, 1975, showed its net worth at \$3.2 million.

He said even that figure was too high.

"We want to make clear that we assumed some major liabilities. The biggest one was an employee retirement or termination obligation," Kumpf said yesterday. "We feel that was understated. Since we acquired Air Asia, we have paid out more than that (the estimated liability)."

Nevertheless, Kumpf said, "We're not denying" that Air Asia was a good buy.

Not only was the purchase a good one for E-Systems in terms of assets, it was a good one in terms of profits. In the 10 months before the deal was

consummated on Jan. 31, 1975, Air Asia earned \$1.35 million in profits, a CIA document revealed.

E-SYSTEMS PAID only about 1.5 times earnings for Air Asia. By comparison, recent stock market prices show that one would have to pay 10 times earnings to buy all the stock in American Telephone and Telegraph and seven times earnings for General Motors.

E-Systems has had a long, close relationship with the CIA.

The company is a major provider of secret electronic and radio equipment to the CIA and the Defense Department. One of its specialties is the so-called "electronic warfare" equipment that was used widely in the war in Southeast Asia.

In addition, W.A. Raborn, a CIA director under President Lyndon Johnson, is on the firm's board of directors. A former deputy CIA director, Lloyd K. Lauderdale, is a company vice president.

Front Page
 WASHINGTON POST
 13 July 1977

CIA Supplier Buys a CIA Bargain

By Evans Witt
 Associated Press

The CIA sold one of its front companies for \$1.5 million less than its net worth, government documents show.

Air Asia Ltd., a CIA front based on Taiwan, was sold in 1975 for \$1.9 million when an audit showed it was worth \$3.4 million.

It was a good deal for the buyer, E-Systems, Inc., of Dallas, a large government contractor that provides highly sophisticated electronic equipment for such agencies as the Pentagon—and the CIA.

Air Asia was sold by Air America, the CIA-owned company that ran airlines in the Far East and Southeast Asia and provided transportation for various CIA projects.

Air Asia did about \$12 million in business in 1975, mainly at a huge aircraft base on Taiwan, where about 2,800 employees perform contract maintenance on military and commercial aircraft in the Far East.

The documents on the purchase by E-Systems were released by Rep. Gerry Studds (D-Mass.), who had asked the CIA for information about the sale.

The audit Studds released was dated March 31, 1974, by Coopers and Lybrand, a large accounting firm, and was an appendix to a classified General Accounting Office report.

John Kumpf, an E-Systems spokesman, said the net worth—how much assets exceeded liabilities—shown by the audit was overstated somewhat. He cited a second Coopers and Lybrand audit of Air Asia, dated Jan. 31, 1975, showing its net worth at \$3.2 million. And he said even that figure was too high.

Nevertheless, Kumpf said, "We're not denying" that Air Asia was a good buy.

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The company is a major provider of secret electronic and radio equipment to the CIA and the Defense Department. One of its specialties is the so-called "electronic warfare" equipment that was used widely in the war in Southeast Asia.

And E-Systems runs the listening post in the Sinai Desert between the Egyptians and the Israelis, under contract to the U.S. government.

E-Systems has other connections with the CIA. A former director of the CIA, W.A. Rabor, who developed the Polaris submarine, is on E-Systems' board of directors. A former deputy CIA director, Lloyd K. Lauderdale, is a top vice president of E-Systems.

[E-Systems has been under investigation by the Securities and Exchange

Commission for allegedly paying \$1.3 million to the Korean Research Institute, a Seoul-based marketing consultant firm, to obtain military contracts with South Korea. The money paid to KRI, according to sources familiar with the investigation, was transferred back to the United States, where it may have been used to make illegal payments to American officials.]

E-Systems' 1975 purchase of Air Asia was a logical extension of its aircraft maintenance business in the United States, which totaled \$33 million in 1976.

E-Systems is also heavily involved in sales in the Far East, particularly to South Korea and Taiwan. One of the contracts held by Air Asia is with the Taiwan government for maintenance of F-4 fighters supplied by the United States.

E-Systems does not provide figures on any subsidiary's profits, and none on Air Asia since its acquisition.

THE BOSTON PHOENIX
12 JULY 1977

Korean connection goes unexplored

The Justice Dept. decides not to probe a suspicious deal

by Jeffrey Stein

The president of a New Bedford, Mass., electronics firm has castigated as "shabby" the decision of the Justice Department not to investigate questionable procedures in the award of a \$2.9 million contract for military radios for South Korea.

The winner of the award, granted by the US Army as part of its foreign military-sales program, was the Dallas-based electronics conglomerate E-Systems, which has been under investigation by the Securities and Exchange Commission in connection with the Korean bribery scandal.

The low bidder for the contract on three occasions in 1974 was Bristol Electronics of New Bedford. On the Army's fourth request for bids, the contract was awarded to E-Systems — after the Army changed the contract specifications. Un-

der the final contract arrangements, Systems and the Army exercised an option whereby additional radio units were sold to South Korea at much higher prices, bringing the total value of the \$2.9 million award to \$11 million.

The Army official in charge of the award, Eugene E. Berg, later joined E-Systems as vice-president for new business development. A former vice-president of E-Systems, Harold L. Brownman, succeeded Berg as Assistant Secretary of the Army for Logistics and Installations.

Bristol Electronics President S. V. Revzin said in a telephone interview with the *Phoenix* last week that he feared for the financial future of his company if he revealed information that he feels would cast further doubt on the validity of the award to E-Systems. "I've got 200 em-

contract.

But Assistant Attorney General for the Criminal Division Benjamin Civiletti replied in a letter to Studds that "we have found nothing in the material which you furnished us or which we have received from the House Committee on Government Operations to indicate any potential for criminal conduct."

SEC records on file in Washington show that five South Koreans involved in the E-Systems investigation were subpoenaed to furnish records of any com-

munications they might have had with MEMCOR, a division of E-Systems that manufactured the radios for South Korea. An attorney for the Koreans has told the SEC that such records as may have existed have been taken to South Korea.

E-Systems' sales increased from \$81.9 million in 1975 to \$119.3 in 1976. Its officers include William F. Rayborn and Lloyd K. Lauderdale, each of whom once directed the CIA's science and technology division, and Harold Brownman, who was once deputy director of the CIA for "special projects." A recent acquisition of the company was Air Asia, formerly an arm of the CIA proprietary company Air America.

In all, the company has six major subdivisions and fourteen subsidiaries that hold major US government contracts, most of which are classified. The company keeps up "customer relations" with Brazil, Germany, Indonesia, Iran, Italy, Japan, South Korea and Egypt. Some 85 percent of E-Systems' sales in 1975 — a total of nearly \$216 million — were to the US government.

Congressman Studds has asked the Justice Department to explain how it arrived at its conclusion that there was not sufficient evidence to warrant an investigation of the E-Systems contract. "I am puzzled by your apparent decision to rely on your own ability to provide you with evidence in order to arrive at a decision for a formal investigation," Studds wrote. "It seems to me that the Justice Depart-



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| Assets | 11,023,000 | 7,105,000 |
| Earnings per common and common equivalent share | \$5.80 | \$3.10 |
| Backlog | \$102,610,000 | \$283,322,000 |

Cover: The American bald eagle shares common traits with the country it symbolizes — strength and independence. As a firm dedicated to the Free Enterprise System, E-Systems products help maintain a strong United States of America.

Your 1976 E-Systems Annual Report contains a copy of the Company's current capabilities brochure. Rather than attempting to graphically portray the E-Systems product story through the pages of this shareholder report, it is practical and economical to include this new brochure to help answer your questions about who we are and what we do.

E-Systems, Inc. • Corporate Offices • P. O. Box 6030 • Dallas, Texas 75222



E-SYSTEMS

The world comes to us with its most difficult problems.

**The world
comes to us
with its
most difficult
problems**

**Electronic Warfare,
Intelligence,
Reconnaissance,
and Surveillance**

Command and Control

**Aircraft Maintenance
and Modification**

**Guidance, Controls
and Navigation**

**Communications and
Data Systems**

We put technology to work in systematic ways to solve the problems of our time.

E-Systems develops and produces high-technology electronic systems for communications, airborne and other applications. Systems that are first. Systems that are one of a kind. Systems that require an unusual blending of technologies.

We are a diversified company with about 11,000 employees and over \$300 million in annual sales.

The people of E-Systems have been remarkably successful at solving problems that have no precedent. That's why the world comes to us with so many of its jobs.

The electronic peace-monitoring system in the Sinai Desert between Egypt and Israel was a quick reaction challenge: We designed it, we installed it, we operate it.

The huge radio telescope that puts humankind closer than we've ever been to the 100 billion stars in our galaxy: E-Systems

designed, manufactured and installed its new

1,000-foot diameter hemispherical dish.

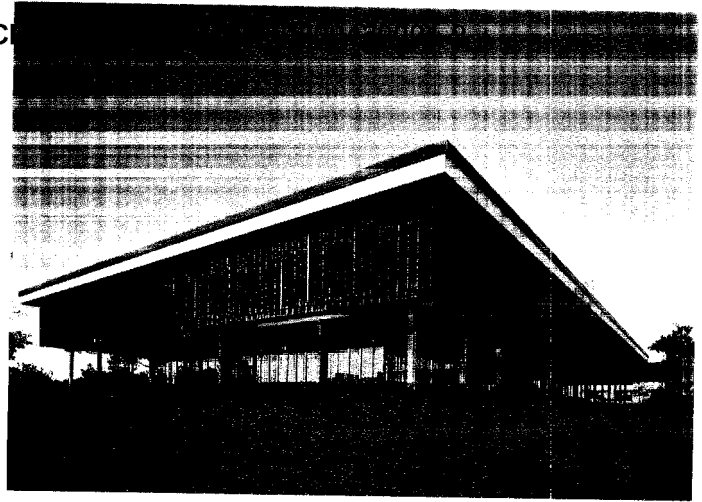
We build the shock suppressors that prevent damage within nuclear power plants as a result of earthquakes. We build the throttle control valves used to maneuver the *Viking* Landers that survey Mars. We design and install the command and control systems for the Advanced Airborne Command Post fleet that serves the highest U.S. authorities.

Another reason E-Systems gets so many of the world's hard jobs is that we're prepared for them. We are prepared because we've trained ourselves to anticipate the world's critical needs with quick reaction capabilities.

For example, our Energy Technology Center is engaged in the development of alternate non-fossil and non-nuclear sources of solar and geothermal energy.

Another area where E-Systems foresight is evident is in the field of Electronic Warfare. Suddenly this relatively new and super-secret field has become the fastest growing segment of the defense budget. One of the few suppliers in the field with a proved record is E-Systems.

The following pages expand on these and other highlights from our major areas of capability



*Corporate Headquarters
Dallas, Texas*

Electronic Warfare, Intelligence, Reconnaissance, and Surveillance

Approved For Release 2004/10/13 : CIA-RDP88-01315R000200420001-9

- Prime contractor for the Sinai peace-monitoring systems.
- Pioneer supplier in the field of Electronic Warfare.
- Developer of active and passive systems ranging from COMINT and ELINT to Mini RPV's.

E-Systems is one of the few companies in the world qualified in the development of complex electronic systems for sensor data collection and sensor data analysis, a key ingredient to national security.

We have extensive experience with early warning systems. We pioneered the systems concept in the Intelligence and Reconnaissance field. We are one of the acknowledged lead-

ers in the rapidly-expanding spectrum of Electronic Warfare.

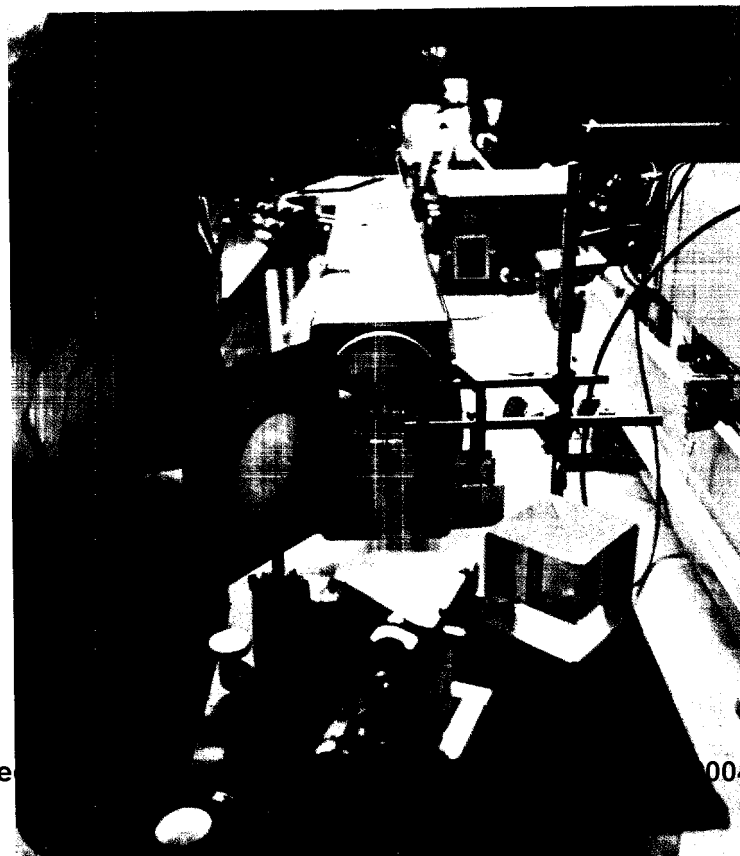
While E-Systems is widely recognized for achievement in all these areas of military electronics, the company is perhaps most highly regarded for being able to deliver systems, on schedule, capable of operating in whatever environments they are needed.

The Sinai Monitoring Station. This assignment from the U.S. State Department involved the design and installation of a system to protect the peace in the Sinai Desert. It included the installation of sensor fields in the Giddi and Mitla Passes to enable neutral observers to be on the alert against truce irregularities. It also included building the living and working facilities for the American volunteers operating the Sinai Field

Mission (SEM) and the staffing of the Mission with E-Systems specialists.

E-Systems was awarded this contract in competition with five other companies. An even greater challenge was the task of getting the system installed and operating in six weeks. It was critically important that SEM technicians be ready to move into the area when the occupation troops departed. The sensor fields were operating on time—two days ahead of schedule, in fact.

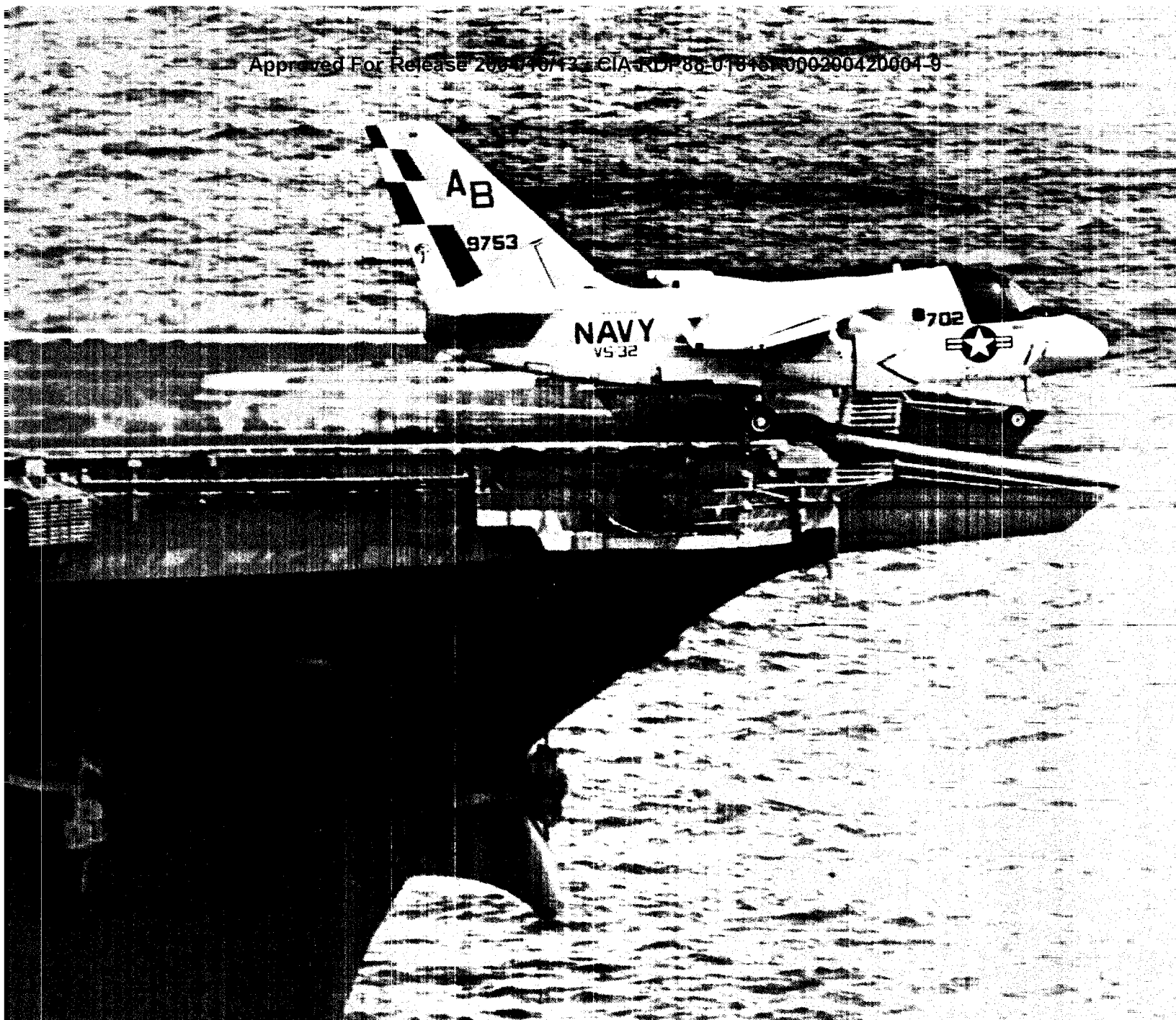
E-Systems has extensive experience with intelligence gathering systems of all kinds. We have been



Extensive integration of latest technology is indicative of E-Systems' growing annual research and development investment.

Tactical Electronic Intelligence (TEINT) receivers from E-Systems will equip the U.S. Navy's F-4 Phantom II aircraft.

In addition to special air frame modification, E-Systems design and install sophisticated reconnaissance and intelligence systems on military aircraft.



4 involved with one large program on a developer/supplier/ operator basis for more than 12 years.

More than 20 years' experience. We pioneered the systems concept in the Intelligence and Reconnaissance field. We have developed airborne, ground-based and ship-board systems.

These include combinations of sensors such as electronic receivers, infrared and ultraviolet detectors, television, lasers, and

sophisticated photographic equipment.

Our Intelligence and Reconnaissance systems are used to collect, record, interpret, and analyze target signature data. They also are used to derive intelligence regarding location, function and operating characteristics.

To support these many programs, E-Systems has laboratories and test facilities that are among the most advanced and extensive in the nation.

Pioneer in the expanding EW field. Electronic warfare is the fastest growing segment of the defense budget today. Attention has focused on this developing area of defense capability for two reasons.

First, recent military history in the Middle East and Southeast Asia proved that electronic warfare techniques can be decisive in modern combat.

Second, Electronic Warfare systems can mean a more economical defense.

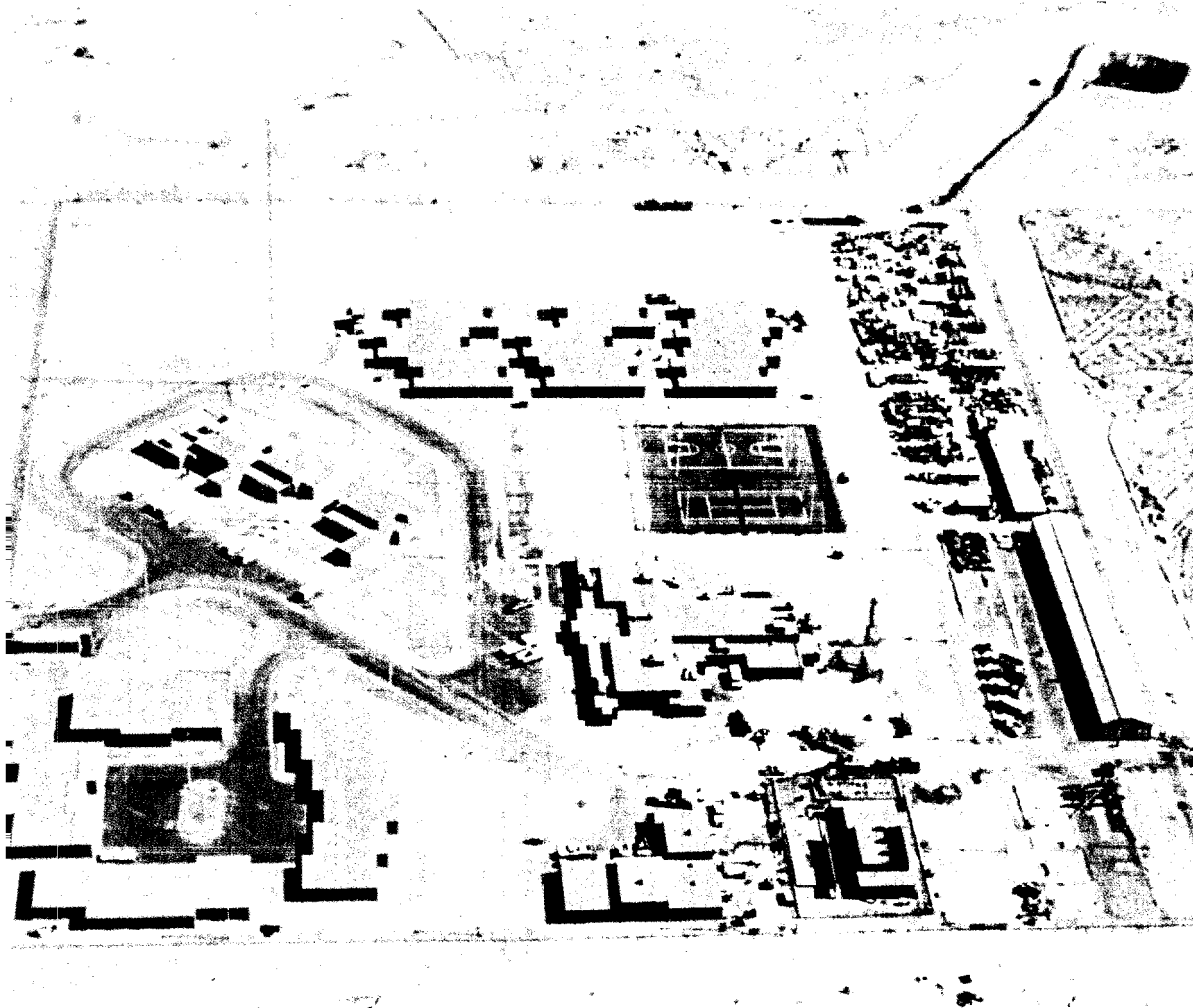
They provide a proved and effective method of reducing the amount a nation has to spend on the more conventional types of defense.

E-Systems for many years has developed and produced EW systems for air, land, sea, and space.

We are the only large EW supplier that's also a major contractor for aircraft modification. This makes us the company most qualified to integrate and produce complete airborne EW systems.

We have pioneered in the design of electronic countermeasures (ECM) and electronic counter countermeasures (ECCM) systems and subsystems.

Active and passive systems. In the active area, E-Systems has delivered jam-



The Suez Monitoring Station in the Middle East was operational in less than six weeks.

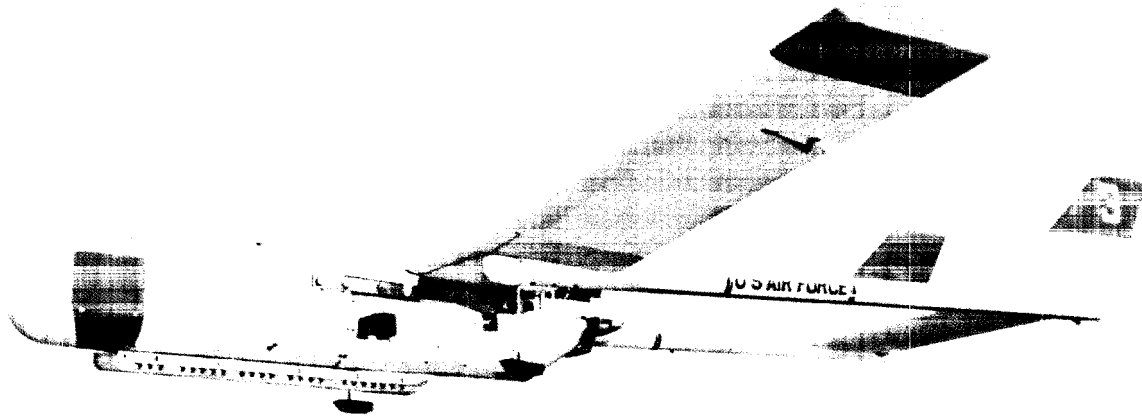
ming and deception systems that operate through a significant portion of the radar frequency spectrum. Other active-area products include fuzing systems and proximity sensing devices.

Our Mini-RPVs (Miniature Remotely Piloted Vehicles) serve as airborne platforms for a variety of electronic payloads. Employed as a harassment vehicle, they carry television systems, jammers and tactical strike support electronics. These aircraft are as economical as they are effective. They offer maximum flexibility to defense planners.

In the passive sector, E-Systems makes transmitters and SIGINT receivers including COMINT, ELINT, detection sensors, signal processors, radar homing and warning devices, demultiplexers, and intrusion detection devices.

The AN/ALD-8. This is a third-generation airborne signal measuring system developed by E-Systems. It provides a VHF/UHF direction-finding capability for reconnaissance.

The AN/APR-39. This lightweight airborne radar signal detection system provides early warning of radar-supported antiaircraft sites. It has wide application on helicopters and fixed-wing aircraft.



Four- and Miniature Remotely Piloted Vehicles from E-Systems offer a wide variety of electronic and surveillance capabilities.

A helicopter radar warning system from E-Systems detects and identifies hostile electronic activity at a distance of up to 100 miles.



Command and Control

Airborne command posts for the National Command Authority and the Strategic Air Command.

- Automated flight service stations for the FAA.
- High-speed mail handling systems for the U.S. Postal Service and high volume commercial users.

Originally, Command and Control programs undertaken by E-Systems were almost entirely defense-oriented. Today, we apply our Command and Control technologies commercially as well as militarily. Our systems for information gathering and operations management have very broad applications.

Airborne command posts. For 15 years, E-Systems has been the nation's number one supplier of strategic and tactical airborne command posts.

The primary program in this area is the Advanced



Fast, accurate information is automatically available to general aviation pilots through this flight service station in operation near Atlanta.

Airborne Command Post fleet. This program involves the design, configuration, systems integration, and installation of the internal facilities in a fleet of Boeing 747-type aircraft. In event of a national emergency, these aircraft would be used by top U.S. civilian and military leaders to direct our military forces around the world.

The electronic systems

we've developed for this first-priority fleet include radios, radomes, computers, data links, and displays. Internal facilities also include operating quarters for a battle staff representing the highest echelons of the U.S. armed forces and government.

Automated aviation systems. E-Systems was awarded the development contract to modernize the Federal Aviation Adminis-

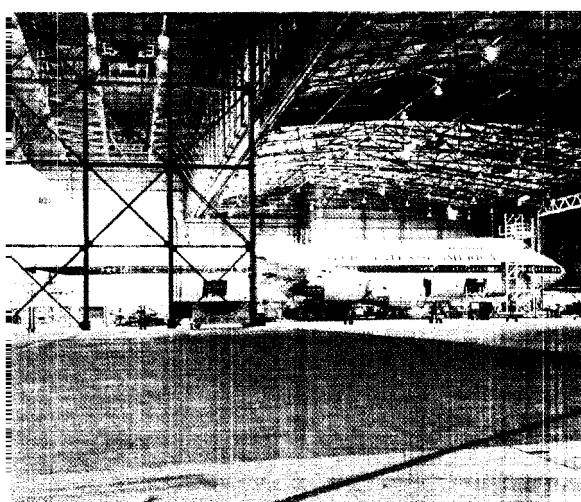
tration's flight service stations. The system, called AWANS (Aviation Weather and Notice to Airmen System), electronically streamlines flight service station capabilities by automating the processing of weather information and pilot flight plans.

The FAA is evaluating the two facilities we have completed — one at Atlanta, the other near Washington, D.C.

As developer of the prototype system, we expect to play a major role in helping the FAA modernize all its stations across the country. We've also delivered an automated flight operations management system to Continental Airlines.

Automated mail handling systems. We helped develop the prototype automated post office for the U.S. Postal Service. Large volume mail-handling commercial installations have been provided to the Internal Revenue Service, the Franklin Mint and New York's Citibank. We're bidding to automate national postal systems for other countries, too.

We've done more of this kind of automation than any other U.S. company.



A company designed flight operations management system allows Continental Airlines to monitor all their operations from Los Angeles.

This company is also a leading provider of the state-of-the-art flight information systems for the two 747-type aircraft.

Aircraft Maintenance and Modification

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The leading private contractor in the Aircraft Maintenance and Modification field.

- Responsible for maintenance of the Special Air Mission fleet, and many U.S. Customs Service, U.S. Army and NASA aircraft.
- Operator of the three large airbase facilities where this work is performed.

Aircraft Maintenance and Modification was this organization's original business. We know our way around airframes better than any other modification company in the world.

The No. 1 private contractor. E-Systems and its subsidiaries have reconditioned and modified more military aircraft than any other company.

We've given second life to thousands of worthy aircraft like the C-47, T-33, DC-8, DC-9, 727, C-130, and the E/KC-135.

A good, recent example of this restoration capability is our work on the F-4 Phantom II. There are more F-4s operational today than any other military aircraft in the world.

We also take dozens of different aircraft types and give them new and highly sophisticated capabilities.

Top priority aircraft. We provide maintenance for

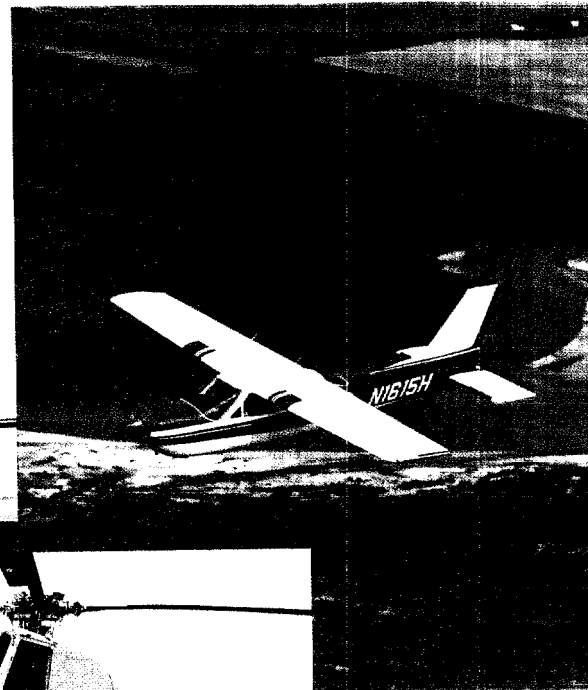
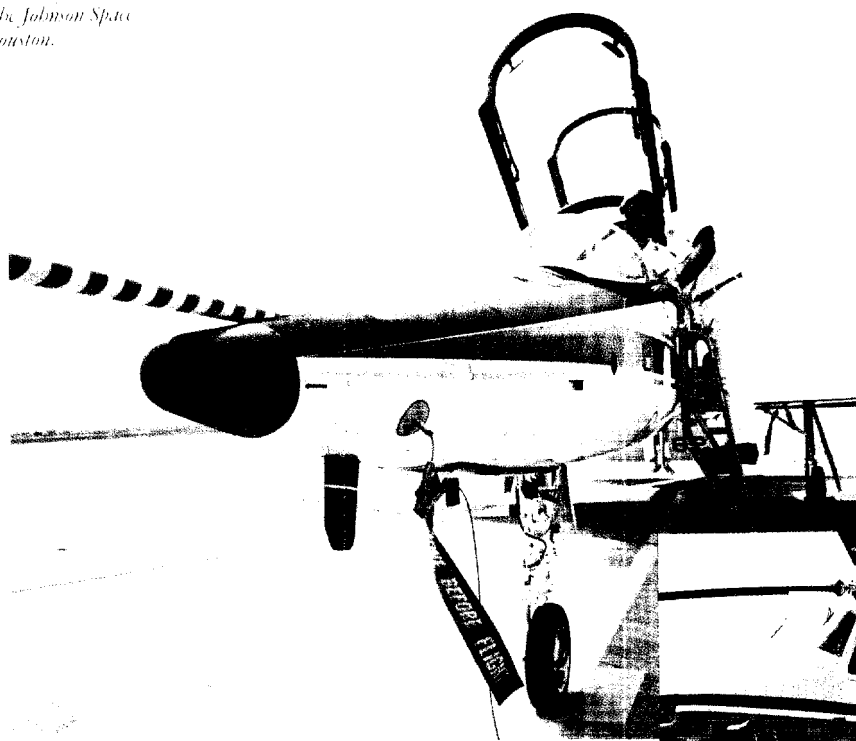
the Special Air Mission fleet, more than 20 aircraft including VC-140s and VC-137s.

We're responsible for a large portion of NASA aircraft. We install equipment in the agency's C-150 research aircraft. And we maintain the aircraft that the astronauts fly.

Large airbases in the U.S. and Asia. E-Systems operates the three big facilities where our modification and maintenance work is performed. Two of these are in the U.S. and one—the largest in Asia—is in Taiwan.

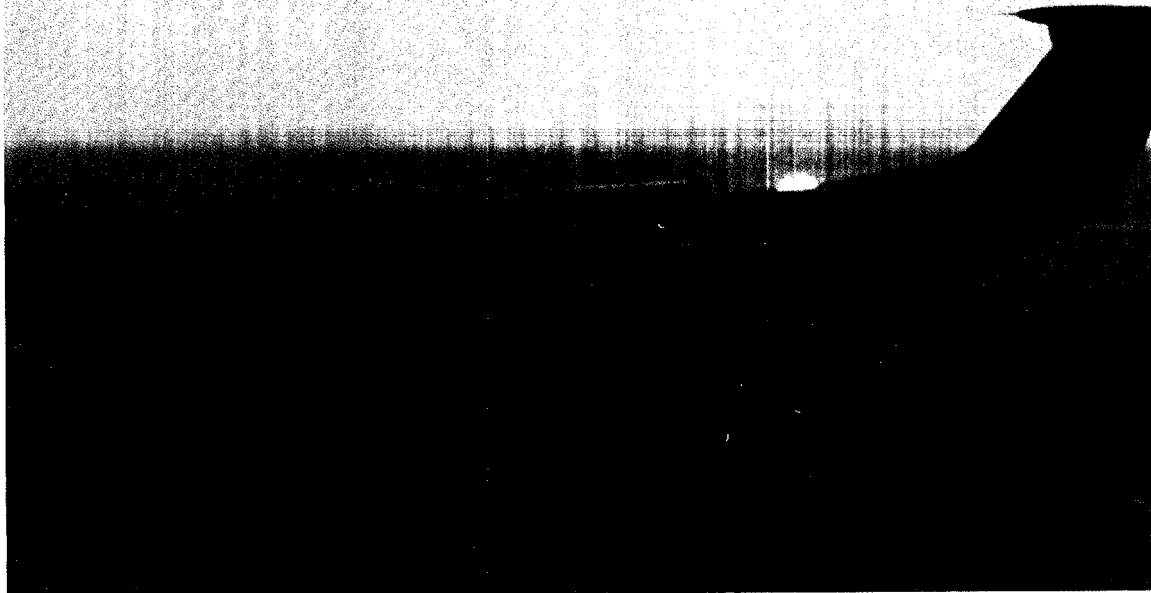
Aircraft maintained by the U.S. Customs Service can safely patrol our domestic borders against illegal entry of aliens and contraband.

This flight proficiency aircraft for NASA's astronauts is maintained by an E-Systems subsidiary at the Johnson Space Center near Houston.



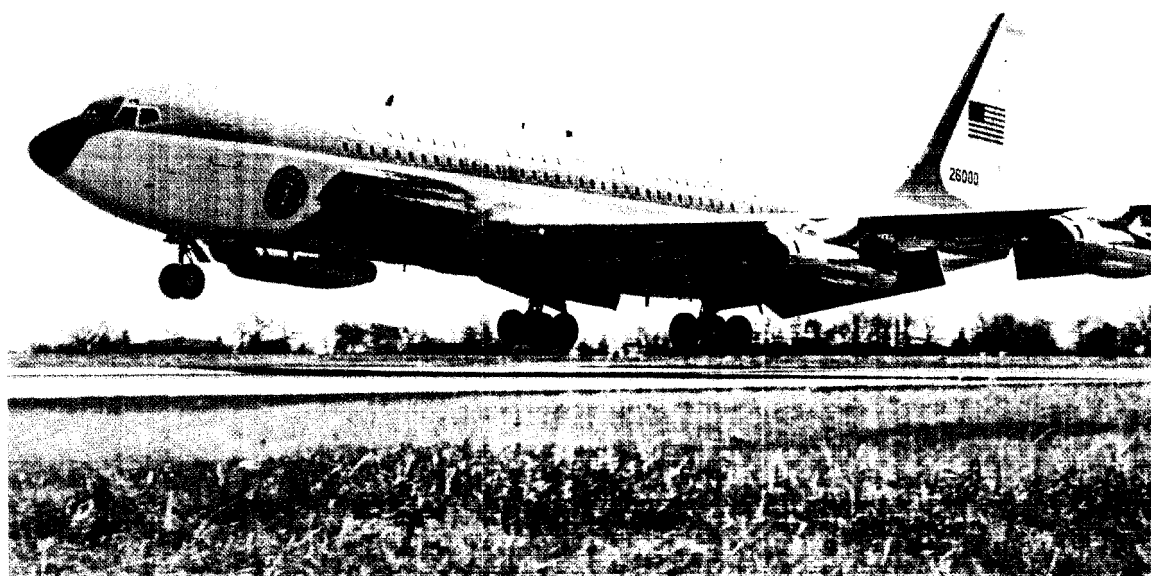
The company's Far Eastern subsidiary can perform any required maintenance or modification on all types of aircraft, including helicopters.

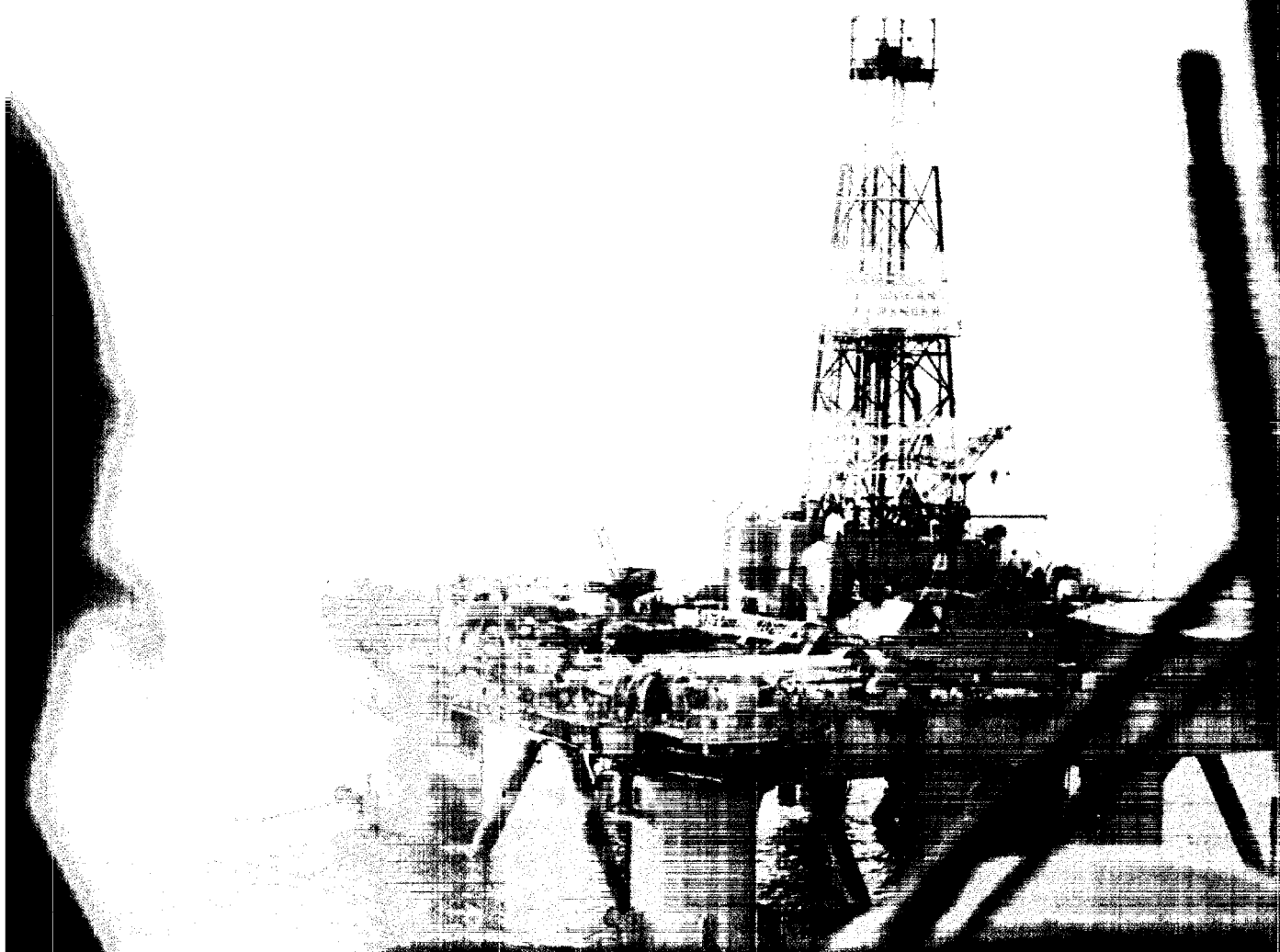
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*E Systems modified this C-141
to allow NASA and civilian
scientists to conduct high alti-
tude astronomical observations*

*The most exacting main-
tenance standards are required
for aircraft of the Air Force's
Special Air Mission (S.A.M.)
fleet*





- *Automatic flight controls for jetliners used by more than 90 airlines.*
- *Flow control systems for chemical process industries.*
- *Shock suppressors and accessories used in nuclear power plants.*
- *TACAN navigation equipment for the U.S. Air Force and Navy and commercial customers worldwide. And VOR/DME systems for private and commercial aviation.*

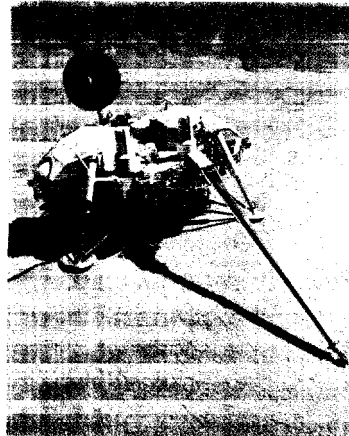
E-Systems has always taken an open-end approach to technology. One product or application has inevitably led to others. Nowhere is this more true than in the areas of Guidance, Controls and Navigation. In these diverse fields, our multi-discipline teams continue to find new markets and to expand deliveries in existing markets.

Aircraft flight controls. Practically every major airline in the world (more than 90) depends on flight controls manufactured by E-Systems. This equipment includes artificial feel and trim systems, hydromechanical servos, actuators, and control modules. These products are original equipment in the Boeing 707, 727, 737, and 747 and the Lockheed L-1011 *Tri-Star*. We also sell these controls directly to the airlines as spares.

The Bell 222 – Bell Helicopter's first all-commercial helicopter – uses E-Systems hydraulic actuators in its main and tail rotors. The *Viking* Landers that survey the surface of Mars were maneuvered by our throttle control valves.

Missile controls. In support of U.S. Navy fleet exercise missions and for foreign governments, E-Systems produces guided missile telemetry sets and exercise heads which replace the tactical warhead

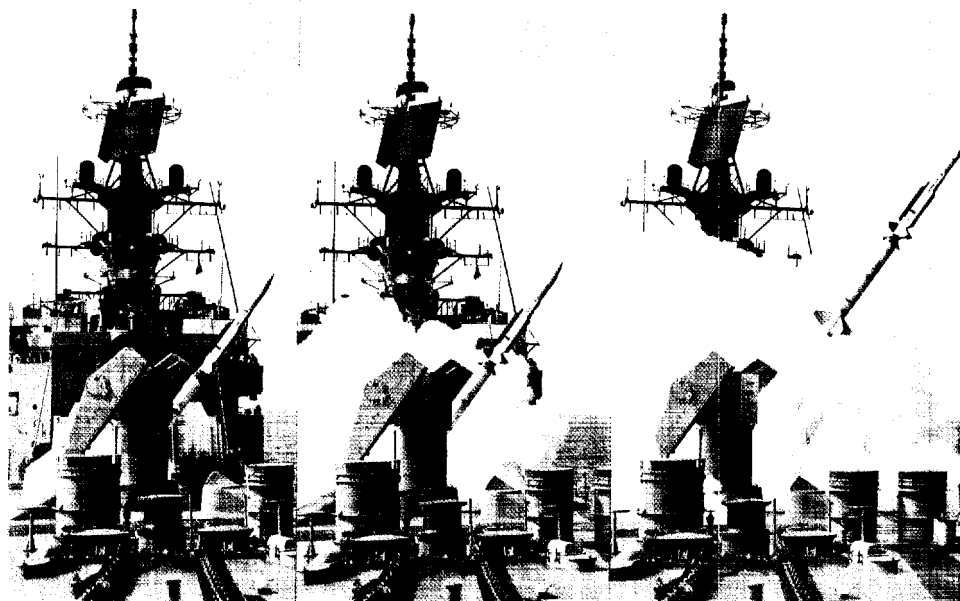
Guidance, Controls and Navigation



Thrust control devices developed by E-Systems helped assure the safe descent of the Viking Landers on Mars.

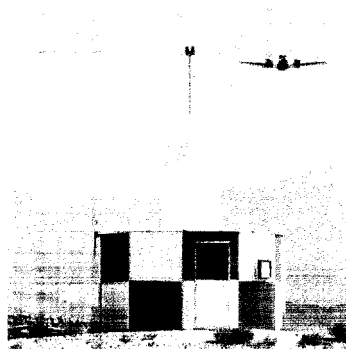
Dependable and accurate TACAN "homing" systems developed for the U.S. armed forces find civilian application on remote Alaskan drilling platforms.

E-Systems provides shipboard communications systems to receive and process in-flight data from the Navy's new surface-to-air Standard Missile 2.





Production of automatic flight controls and navigation aids require the services of some of E-Systems' most exacting technicians.



A highly sophisticated ground navigational aid, developed by the company, undergoes evaluation at a remote civilian airport in Utah.

The Lockheed L-1011 TriStar and all Boeing commercial aircraft use E-Systems flight controls every day around the world.

in practice exercises. These data transmitting sets are used on *Territor, Tartar, Standard, and Talos* guided missiles. This E-Systems hardware telemeters missile flight data to surface stations for missile in-flight performance monitoring and permanent recording for subsequent flight analysis.

Flow controls. We've applied our flight control expertise to flow control products for the chemical process industries. We're providing these industries more accuracy, economy

and flexibility than they've ever had before. Our systems permit the use of low-cost centrifugal pumps instead of expensive variable-speed pumps.

Shock suppressors. We are supplying hydraulic shock suppressors and accessories for the growing number of nuclear power plants. The suppressors are designed to protect the nuclear plant piping against damage caused by earthquakes and other shocks. The contract from General Electric Company makes us responsible for design as well as production.

TACAN and VOR/DME systems. Our TACAN systems are used around the world for air navigation by the U.S. Air Force and Navy and by a number of Free World countries.

An airdroppable version, which weighs only one-tenth as much as the original, has been developed for the Air Force.

TACAN's ability to guide aircraft to safe landings in bad weather and in mountainous terrain makes it commercially attractive. The system is being used by a commercial airline that operates in the Rocky Mountains. Oil companies also are using our TACAN to guide helicopters onto offshore rigs in all kinds of weather.

Our VOR/DME (Very high frequency Omni-Range/Distance Measuring Equipment) is used in private and commercial aviation worldwide.

- *World's No. 1 supplier of military radios.*
- *UHF systems for military and air traffic control communications.*
- *Pioneer in developing digital systems for municipal, commercial and military customers.*
- *Prime technical consultant for microwave telecommunications systems in 20 nations.*
- *World's No. 1 supplier of large earth station antennas for satellite communication.*

A lot of hard jobs in communications are hard not just because of what the equipment has to do but because of where it has to do it.

A radio has to be tough enough to work in an army tank. A telecommunications network has to be threaded through the jungles of Malaysia. An antenna on an isolated mountaintop in California has to pick up signals around the clock from a satellite 22,000 miles out in space.

This E-Systems-designed Very Large Array of deep space research antennas in New Mexico will be fully operational by 1980.

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Assignments like these are the kinds the world gives to E-Systems.

VHF communications systems. E-Systems has been the world's largest producer of military radios for some time. Our radios are the standard in dozens of countries. We have produced more than 300,000 VHF military radios.

We are the only manufacturer of the solid-state radio that is standard with the U.S. Army for tanks, trucks and jeeps. We are primary producer of the Army's standard backpack radio. E-Systems also produces two military radios for aircraft and helicopters.

The company has expanded its tactical radio leadership role to include depot and field testing and training around the world. This system's concept has led to continuing growth in this capability area.

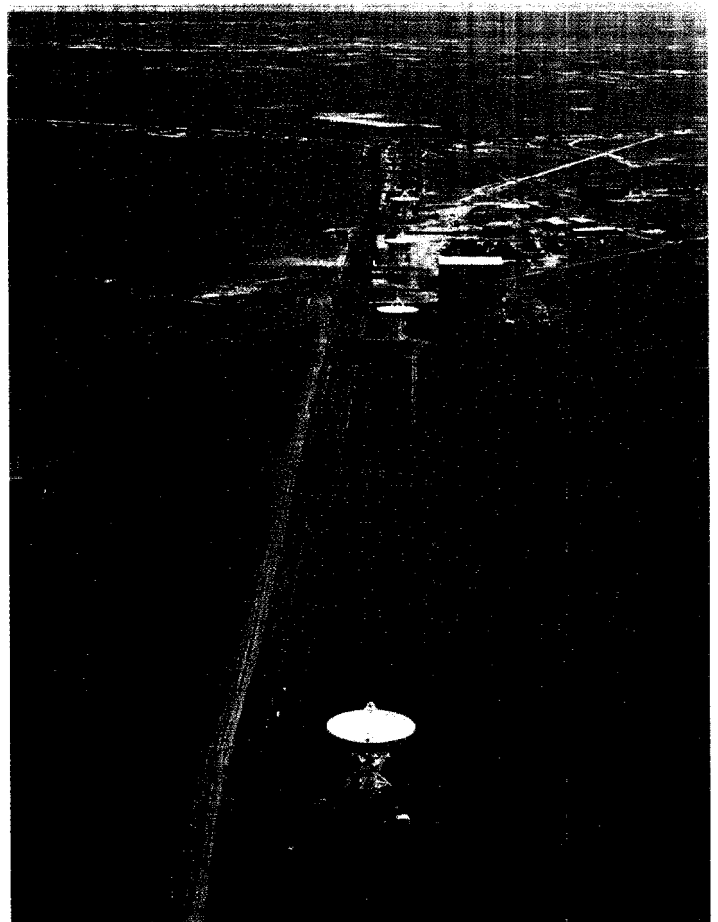
FleetSatCom. For fleet satellite communications, E-Systems is producing a new UHF terminal (the AN/WSC-3 or "Whiskey-3") for surface ships and submarines. We also provide the spacecraft UHF receiver subsystem for the Fleet Satellite Communication system. E-Systems specialists were the

ones who established the feasibility of satellite relay for worldwide communications between operating elements of the armed forces.

Other UHF systems. We have provided UHF systems for the Airborne Command Post program since 1961. We supply a number of equipments for the U.S. Air Force's new E-3A Airborne Warning and Control Systems (AWACS) aircraft. Our UHF systems are also used with Marine and Navy tactical data systems.

Other users of our UHF systems: The U.S. Navy's new *Spruance* class destroyers; the Canadian Armed Forces; European air traffic control systems; NATO's NADGE

Communications and Data Systems





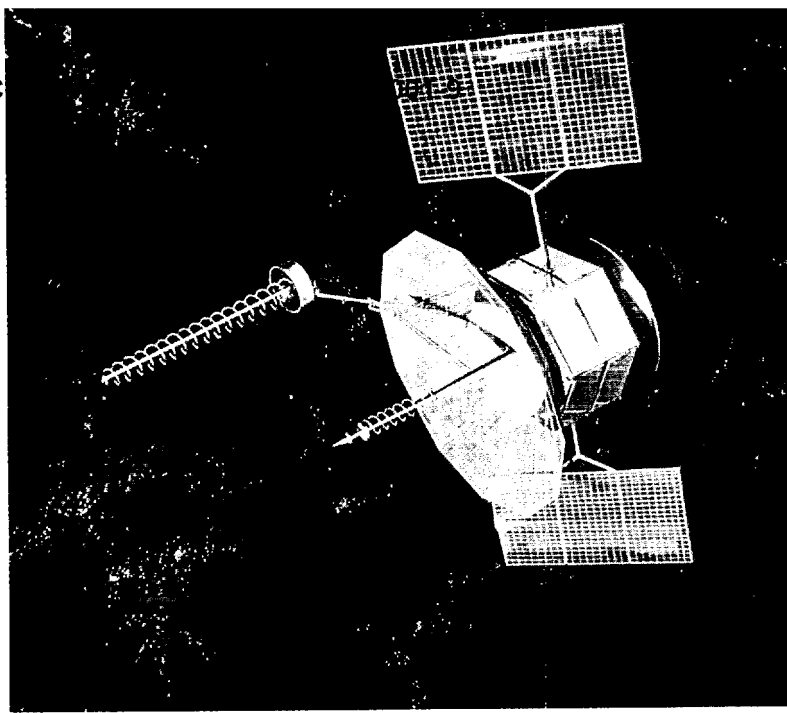
program; and *Minuteman* ICBM missile launch sites.

Digital systems. E-Systems made it possible for public safety agencies to automate their dispatch and information management functions. The system is called DIGICOM™. It uses RF digital communications to give police and fire chiefs total management control of all their resources — personnel, equipment, information. DIGICOM systems are in service in several cities in the Western Hemisphere.

Another all-digital advancement from E-Systems is our speech processing system for commercial and military customers.

This voice processor provides simultaneous voice and data transmissions on the same line. The addition of an encryption device at end allows transmission security. Even with the same machines, it would take unauthorized persons years to break the code. Because the system transmits information digitally, it can be multiplexed with other data bit streams to allow simultaneous voice and data transmissions. This capability can dramatically increase the efficiency of leased telephone lines.

Our UYA-7 worldwide digital communications systems are used by the U.S. Army, Navy and Air Force. It's a near fool-proof system for command and control because of its anti-jam features.



Telecommunications systems. E-Systems has been the technological consultant for some of the world's longest telecommunications systems, serving operations in more than 20 nations on four continents.

One of our integrated national telecommunications systems serves the public and private needs of an entire country.

The company produces a broad line of data printers ranging from pocket-size to a lightweight, low power consumption thermal version used on NASA's *Skylab* for communications with ground stations.

Satellite earth station antennas. We service models that can be erected in the field in four days by four workmen without cranes to 32-meter antennas for the INTEL-SAT network which can

withstand winds to 210 miles per hour. We've supplied more than 100 antennas of a large diameter size to the U.S. and 28 other countries. We also provide complete antenna control systems, from basic pushbutton types to highly sophisticated systems with elaborate digital control provisions.

For the National Science Foundation E-Systems redesigned and renovated the 1,000-foot diameter radio telescope at Arecibo, Puerto Rico and is building and installing a Very Large Array of 28 antennas in New Mexico for deep space research.



From this huge E-Systems manufacturing area (far left) comes a wide variety of highly sophisticated communications systems for many customers.

The company is a prime contractor for many of the communications equipments for the U.S. Navy's FltSatCom (Fleet Satellite Communication) system.

The company continues to be the world's leading producer of personnel, vehicular and airborne tactical communications systems (left).

The Air Force's E-3A (above) Airborne Warning and Control System (AWACS) contains a broad spectrum of E-Systems UHF radios.

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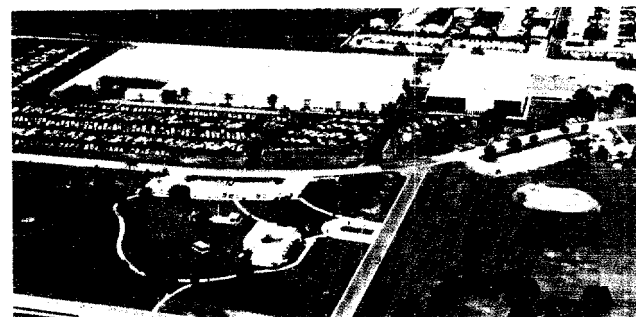
Memcor Division



Melpar Division



Garland Division



ECI Division



Air Asia Company Limited

E-Systems
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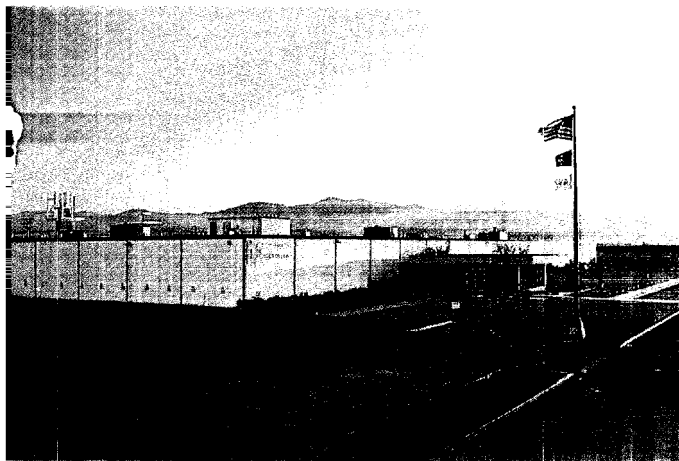
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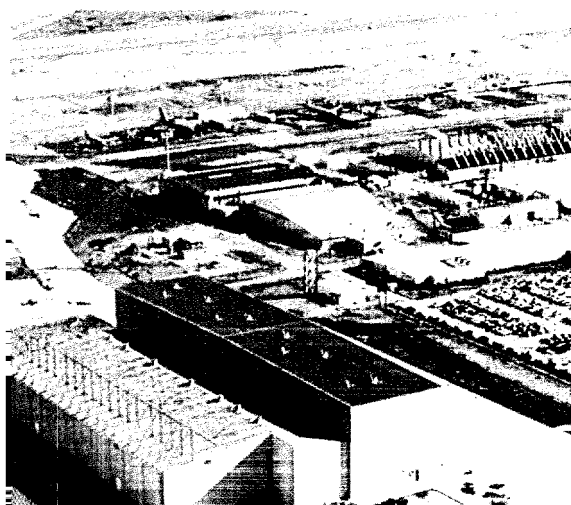
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Montek Division



Greenville Division



Serv-Air, Inc.

1976 was a milestone year for our Company because it marked the seventh consecutive year of significant profit gains. It was the most profitable year in our history. Net income after taxes was more than double that for 1975, amounting to \$14,528,000 or \$5.80 per common and common equivalent share. Sales rose 26 percent over the previous year to nearly \$320 million, our highest ever.

Following its acquisition on July 26, 1976, the operating results of E-Systems new ECI Division in St. Petersburg, Florida were consolidated with those of the parent company for the last five months of the year. The addition of ECI was in line with a continuing acquisition policy of adding businesses which are compatible with our existing operations and capabilities. The ECI acquisition resulted in corporate operations at year-end that include seven divisions and three subsid-

iaries employing nearly 11,000 persons.

I attribute much of our 1976 performance to the generally improved efficiency of our people. Because E-Systems, unlike many other companies, is not capital intensive, human resources are our most valuable asset. Instead of investing vast amounts of capital in physical equipment and facilities, we depend more upon the knowledge, motivation and efforts of our employees.

Solidifying this concept of "oneness" among members of the "E-Team" is our Employee Stock Ownership Plan (ESOP). Adopted in 1973, the ESOP has made each employee a shareholder. Both the Company and the individual employee shareholder benefit. As each employee exerts his or her best efforts, the Company benefits through improved operations and the employee may be able to gain through a possible growth in the value of his ESOP shareholdings. Thus the goals of the employee, the Company and our public shareholders are even more closely related.

Products and Customers

E-Systems record-high results for 1976 stemmed principally from improved performance in most of our product areas, but

particularly electronic warfare and communications.

The Company booked some significant new orders in both the electronic warfare (EW) and communications markets. Together, these areas accounted for approximately three-fourths of our total sales. (The majority of ECI's sales and orders are included in the communications product category.) The remaining one-fourth of the revenues came from our other three product categories — 1) command and control; 2) guidance, control and navigation, and 3) aircraft maintenance and modification.

Last year about 45 percent of our sales were to international, commercial and non-defense U.S. Government customers. The United States Department of Defense (DoD) contributed 55 percent of total revenues. This was about the same as in 1975 (although the actual dollar sales to DoD increased in 1976) and was down from 65 percent in 1974. International sales posted the sharpest increase to \$119 million from \$82 million.

As a result of the new bookings plus the inclusion of ECI, E-Systems entered 1977 with a record-high backlog of orders of \$303 million. This was up 25 percent from \$243 million at the end of 1975. As in the past, the Company plans to continue expansion of business to both DoD and to our other markets. Our objective is to achieve a 50-50 split between DoD and non-U.S. defense sales.

Business by Product Line

Electronic Warfare

capabilities at E-Systems include the design, integration and installation of electronic intelligence, reconnaissance, surveillance, and electronic countermeasure (ECM) products and systems in airborne, ground and sea-based environments. During 1976 electronic warfare (EW) continued to be the E-Systems product line sales leader, with revenues in this area of \$124 million and a year-end backlog of \$98 million.

Most market forecasts indicate EW will be among the fastest-growing areas of defense spending for years to come by both our Government and

many international customers. E-Systems has long been an acknowledged leader in this technologically-demanding business.

E-Systems booked a substantial amount of continuing EW business, such as a large U.S. program in which E-Systems has been involved for over a decade.

Orders were also received for several new programs with potential for future follow on sales. For example, we received a \$3.4 million letter contract from the IBM Corporation for initial development and testing of the electronic intelligence (ELINT) subsystem for the U.S. Navy's Tactical Airborne Signal Exploitation System (TASES). This EW system, for which E-Systems will design and build the ELINT receivers, will be installed on the Navy's new S-3A twinjet, carrier-based aircraft. It will be designed to receive, process and analyze electronic signals during reconnaissance flights for near-real time support of task force commanders.

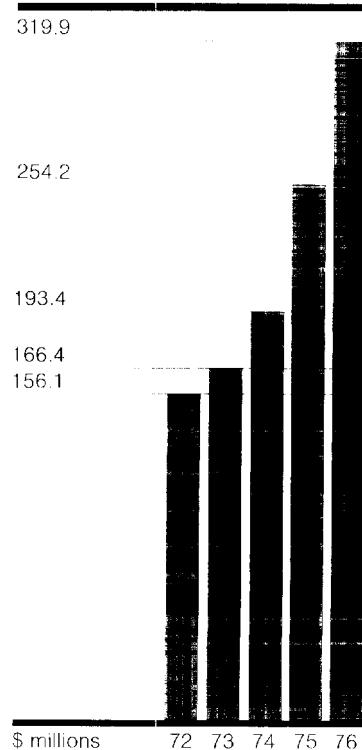
Our expertise in special ground-based sensors continues to be utilized at the Sinai Field Mission's early-warning station between Egypt and Israel. In January 1976 the Company won the contract to install, operate and maintain this

electronic peace-monitoring system in the Sinai Desert. The system became operational ahead of schedule and we completed the permanent facilities at the remote outpost by mid-year. The maintenance and operational portion of the contract was renewed last September. This is a prestigious program for E-Systems and has enabled us to play a role in helping maintain peace in the Middle East.

Communications

includes military VHF and UHF radios, digital communications systems and products, microwave telecommunication services, and ground-based satellite antennas. The Company's most dramatic sales increase for the year was recorded in our communi-

Net Sales



cations product category. Sales totaled \$116 million, with a year-end order backlog of \$122 million. Communications systems of all types, both for defense and commercial applications worldwide, along with electronic warfare, represent what we feel will be our two largest growth markets for the long-term future.

In 1976 we consummated an agreement with the Government of Finland for "in-country" production of military radios, bringing the number of countries in which we have obtained such co-production agreements to five. Since the mid-1960s, E-Systems has been the largest volume producer of military radios in the Free World.

During the year our

Company won a contract to install a centralized police and fire department communications system for a group of seven cities in the Los Angeles area. The system incorporates the use of DIGICOM™ mobile data terminals to be installed in over 80 police cars. We also continued installation of our largest and most advanced DIGICOM system to date, this one for a large South American country.

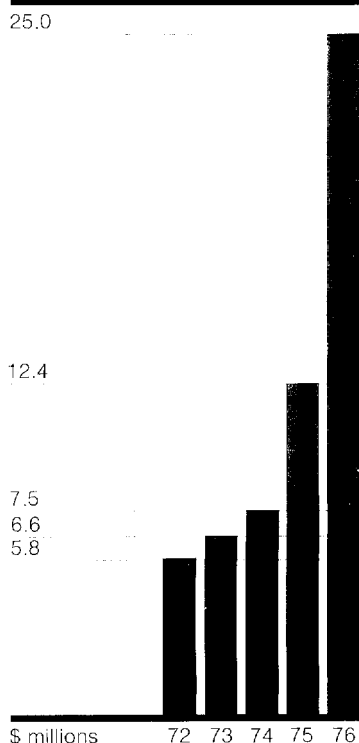
Moreover, we developed a new, highly cost-effective line of small-diameter earth station antennas and sold several of them for use overseas. These can provide many foreign countries, especially the developing "Third World" nations, with the means of establishing modern satellite communications systems.

Significant progress also was made during 1976 toward completion of a Very Large Array (VLA) radio-telescope project in New Mexico for the National Science Foundation. E-Systems is providing 28 special antenna structures and related facilities for this history-making installation. When completed in 1980, the VLA facility will be the world's largest radio telescope, and will be used for further scientific research into the makeup of the universe.

Our microwave telecommunications subsidiary, TAI, Inc., was awarded a contract to provide upgraded telecommunications for the National Railroad of Bolivia and also completed a study contract to prepare a 20-year master plan for a telecommunications system for the national telephone organization of the Republic of El Salvador. We hope to use the El Salvador plan as a marketing springboard for winning similar programs in other Latin American countries.

In addition, the acquisition of ECI added important programs to the communications product category. These include surface ship and submarine UHF terminals for fleet satellite communications, the UHF receiver subsystem on the spacecraft for the Navy's Fleet Satellite Communication (FltSatCom) system, teleprinters, and air traffic control systems.

Pre-tax Profits



Command and Control involves the capability of installing airborne and ground-based systems and equipment requiring communications, electronics and mechanical expertise.

This segment of our sales continued to be an important source of business for E-Systems in 1976, with sales totaling \$26 million and the year-end backlog amounting to \$28 million.

The Advanced Airborne Command Post (AABNCP) program entered its second phase with the completion of the third airplane and delivery to E-Systems of the fourth aircraft late last year. Work continues on the modification of this Air Force version of a 747-type airplane. E-Systems is under contract to install and integrate into the fourth flying advanced command post a more sophisticated electronic communications and command and control system than those previously incorporated by the Company in the first three aircraft.

The Company supplies, through our new ECI Division, a number of systems for the U.S. Air Force's new E-3A Airborne Warning and Control System (AWACS) aircraft. The E-3A also is being considered by the NATO nations for their various requirements in the command and control area.

Also in this product category, our Company received a contract to design and install an automated mail-coding and processing system for a large New York bank. When completed in mid-1977, this installation will make this bank the first financial institution in the United States to adopt such a computerized, high-speed letter mail-handling system.

These types of systems from the Company offer the large volume mail-handling commercial installation a rapid method of automatically processing vast amounts of incoming mail.

Earlier in the year, E-Systems was awarded a contract by the Federal Aviation Administration to install an automated flight information system in the FAA's flight service

station at Leesburg, Virginia. Called Aviation Weather and Notice to Airmen System (AWANS), it is similar to the first AWANS installation completed by the Company at Atlanta, Georgia in 1975.

Guidance, Control and Navigation

includes electromechanical controls and ground-based navigational and guidance equipment. Sales totaled \$20 million and the year-end backlog was up 78 percent from a year earlier to \$32 million.

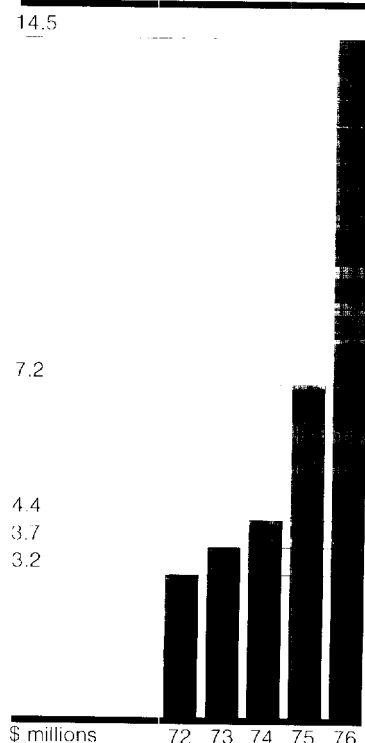
The Company completed development of Very high-frequency Omni-Range (VOR) and Distance Measuring Equipment (DME) navigation systems and we are bidding on a contract overseas. We also sold several Tactical Air Navigation (TACAN) systems, in both land-based and shipboard versions, to international customers. We received contracts to lease two TACAN systems for use on Alaskan offshore drilling platforms. This

marked the first time our once all-military navigation equipment has been installed to permit landing approaches during inclement weather by helicopters providing supply and personnel service to offshore drilling rigs. The potential future sales possibilities are obvious.

Another key development in this product area was a several million dollar order from General Electric Company to develop and produce hydraulic shock suppressors for 17 nuclear power plants. Such shock suppressors, designed to protect the piping of nuclear power plants during earthquakes and other major disturbances, are required equipment in these power-generating facilities.

The newly-acquired ECI

Net Income



Division produces guided missile telemetry and tracking sets and kits which are utilized in missiles. One such system includes a new concept of an electronically-steered phased array antenna for the receiving portion of the shipboard tracking capability under development for the U.S. Navy's new *Standard Missile 2*.

Maintenance and Modification in the United States includes depot level maintenance on the nation's *Special Air Mission (SAM)* fleet of airplanes, including the Presidential aircraft, and aircraft service contracts performed on-site at various customers' bases. Work on the SAM fleet is in the fourth year of a five-year contract. This overall product line of business resulted in sales of

\$34 million and an ending backlog of \$23 million.

Internationally, Air Asia Company Limited, our subsidiary in Taiwan, Republic of China, increased its commercial aircraft maintenance and modification contracts. Air Asia continues the work it performs on F-4s and other military aircraft.

As we entered 1977, E-Systems received other international business through a contract from another country for the refurbishment and modification of large commercial-type aircraft.

Energy Technology Center
We formed an Energy Technology Center in August. Our Company was awarded a contract to participate with Texas Tech University in the first

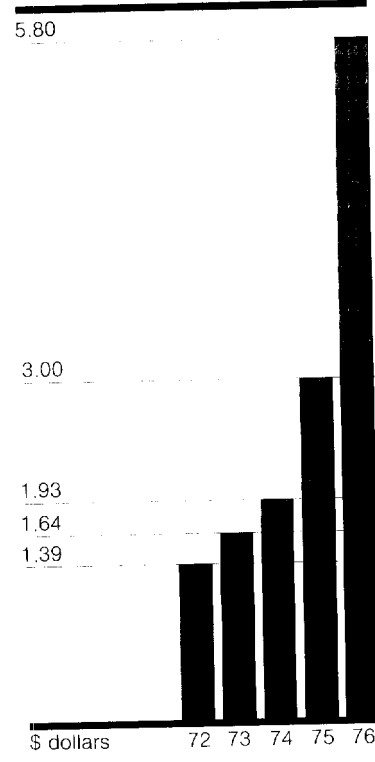
phase of a five-year program to design, construct and demonstrate operation of a solar thermal-electric power plant at Crosbyton, Texas. Funding for this program, sponsored by the Energy Research and Development Administration (ERDA), ultimately could exceed \$20 million. We subsequently formed a new joint-venture company, with an oil and gas firm to pursue a similar solar-power contract in Lea County, New Mexico. Dr. Lloyd K. Lauderdale, Corporate Vice President-Research and Engineering, is General Manager of the new Energy Technology Center.

ECI Acquisition
The addition of Electronic Communications, Inc. (now our ECI Division) in August was a very compatible acquisition for your Company, principally because of ECI's excellent reputation in the high-technology field of military communications equipment. In addition, ECI brings with it a long-standing relationship with the United States Navy, providing E-Systems with a broadened base for doing business with this important customer.

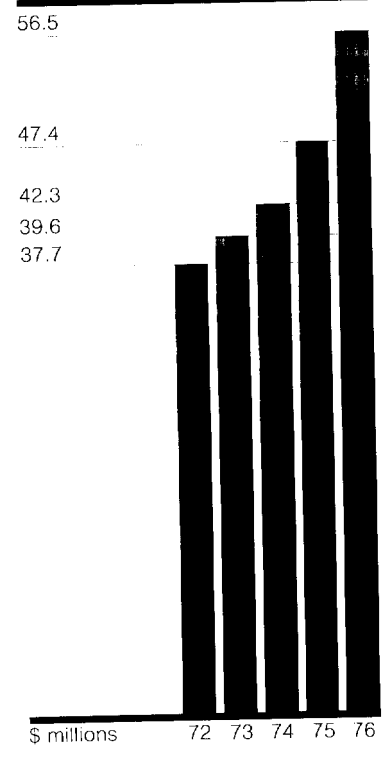
ECI has long been a pioneer in satellite communications terminals. They currently are in quantity production of AN/WSC-3 satellite communications terminals for the Navy. This highly-advanced solid state UHF radio terminal provides Navy surface ships and submarines with a worldwide satellite communications capability. The AN/WSC-3 is designed to work with the new Fleet Satellite Communication (FltSatCom) system. ECI also is supplying the UHF receiver sub-system for use in the FltSatCom satellites, the first of which is scheduled to be launched late this year from the Kennedy Space Center.

Another promising area for ECI is its full line of

Net Income Per Common Share



Total Stockholders' Equity



6 military teleprinters. Incorporating advanced electronic technology, these units have application in virtually any military environment — land, sea or air. The teleprinter line is being marketed domestically and internationally.

ECI also has been successful in the marketing of UHF/VHF air traffic control communications systems for European airports. Many of these serve military and commercial aircraft, requiring dual-frequency communications capability for air traffic controllers.

ECI also supplies UHF radio equipment for the Air Force's new E-3A Airborne Warning and Control System (AWACS).

It is our intention to supplement ECI's strong capabilities in high-technology product development and manufacturing with a more aggressive international marketing effort through E-Systems existing worldwide customer relations organization. ECI's capabilities in communications systems also will be strengthened.

Financial Base
E-Systems policy of financial conservatism, with emphasis on strong centralized controls and efficient asset management, contributed not only to a substantial improvement in our overall profit margin in 1976 but also to the strongest financial position in our history as the Company entered 1977.

Substantial progress has been made toward attaining our initial objective of after-tax profit margins of 5 percent. Pre-tax profit margins have increased steadily since the first quarter of 1974; during 1976 pre-tax margins advanced from 6.13 percent in the first quarter to 8.93 percent in the fourth quarter, resulting in an average pre-tax margin for the entire year of 7.83 percent.

This improvement has been due chiefly to business mix, fixed-cost efficiency obtained from our general sales increase and progressively strict emphasis on corporate goals in our pricing, bidding policies and risk analysis and controls.

Also of great importance is our primary objective of maximizing the

value of our stockholders' investment in E-Systems through the earning of a higher return on invested capital and by more efficient use of assets.

On September 30, 1976, the Company signed a new seven-year loan agreement with several banks which provides for borrowings of up to \$40 million until the end of 1978 and decreasing \$6 million per year thereafter. There have been no borrowings against this or the predecessor loan agreement for over a year.

The liquidity of your Company last year was sufficient to provide enough cash to acquire the ECI Division in Florida, pay for E-Systems new corporate office building, purchase approximately 550,000 of the Company's outstanding warrants, and increase the common stock dividend to the shareholders without use of the \$40 million credit available to us.

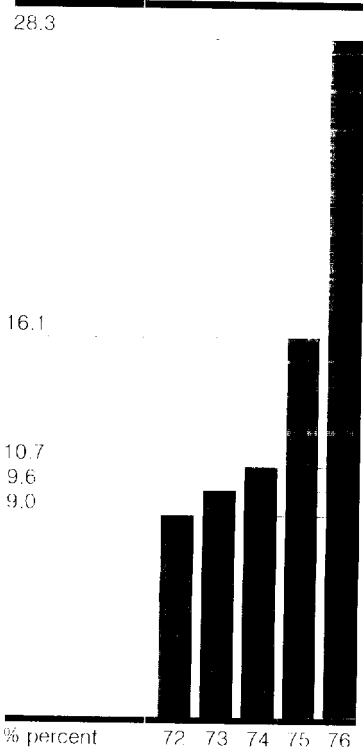
At year-end, the ratio of interest-bearing debt to total invested capital (debt-to-capital ratio) stood at 17 percent. Net return on average assets thus improved to 14 from 7 percent. Net return on average shareholders' equity increased to 28 percent from 16 percent while the net return on average

shareholders' equity plus interest-bearing debt doubled to 24 from 12 percent during 1975.

Recognizing E-Systems present earning power and financial position, your Board of Directors in 1976 raised the annual dividend rate on the Company's common stock from \$1.00 to \$1.60 per share. The Board also voted to pay a 10 percent stock dividend on October 15, 1976. Our dividend policy will continue to be reviewed periodically, with the Company's cash needs and general business conditions duly considered, in the realization that investors are putting greater emphasis on dividend yield.

It has been most gratifying to note the growing recognition of E-Systems

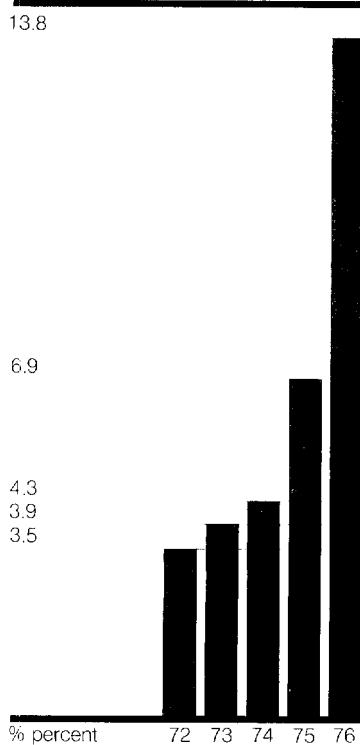
Net Return on Average Shareholder Equity



securities in the investment marketplace. For example, in a recent statistical survey published by *Forbes* Magazine E-Systems was ranked sixth among more than 900 leading American corporations for market-price growth of its stock, with nearly a 277 percent gain in per-share price in the five years from 1972 through 1976. In 1976 alone, ESY more than doubled in market price.

During 1977, we plan to continue our policy of making regular appearances before security analysts, stockbrokers and similar groups in various cities in an effort to keep them abreast of Company activities and operations and to further enhance E-Systems identification in the investment community.

Net Return on Average Assets

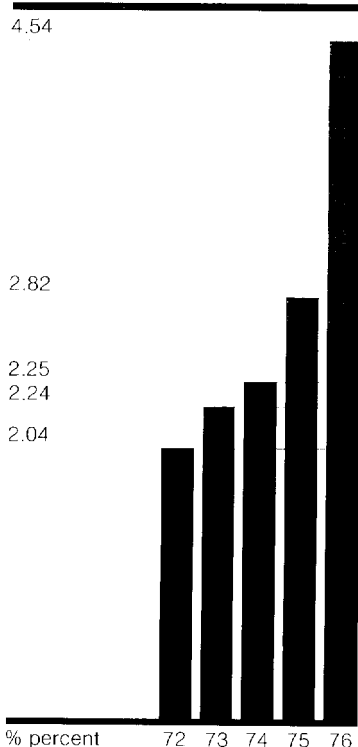


Objectives and Outlook

As I stated in the 1975 Annual Report, your Company has established certain initial general and specific goals, with the primary objective of increasing the value of the investor's ownership in E-Systems. We are pleased with the progress we made in 1976 toward meeting those goals. These initial objectives included an average annual sales growth of 10 percent (when measured over the next several years), after-tax profit margins of 5 percent and a 13 percent minimum normalized average net profit on invested capital.

Looking toward 1977 and beyond, I realize that we cannot afford to rest on our laurels. In order to further enhance the value of your investment in E-

After-tax Profit Margin



Systems, we will maintain our principal long-term objective to continue growth at a controlled and profitable rate.

To achieve this, your management recognizes that we must keep and further improve the reputation and recognition we have attained in all of the areas in which we do business or are involved – primarily with our customers, the U.S. Department of Defense and the military services, other government agencies, and the investing public, both in this country and abroad. We will continue to pursue our traditional areas of business in U.S. defense while seeking further penetration of our international and commercial markets. We will further refine our policy of centralized management control whereby we seek to minimize risk and carefully balance both risk and investment against potential rewards. This concept is designed to produce the most profitable business mix and maximize our return on assets and investment over the long term.

Moreover, we intend to continue our acquisition policy of seeking to add businesses to E-Systems that are compatible with

our present product and customer base and with our existing expertise. We have developed our own "ABCs" for acquisitions: "A" for "Availability"; "B" for "Buyability"; and "C" for "Compatibility" – which is the most important.

Early in 1977, in a continuing effort to strengthen our divisional management and posture for future growth, the Company named James M. Osborne President and General Manager of the ECI Division. As a Corporate Vice President, Mr. Osborne will continue to be responsible for new business development and planning. In addition, Edward G. Casteel, an experienced communication-systems executive, became Vice President and General Manager of our Memcor Division. He succeeded Robert H. Mitchell in this capacity, enabling Mr. Mitchell to devote full attention to overseeing the expanding activities of our Production Electronics Group.

In summary, I am optimistic about the future of E-Systems. We have the products, the people, the reputation and, I think, the motivation to maintain the growth momentum that we've built up over the last several years. We are less susceptible to the vagaries of general economic conditions that often affect many other companies.

The outlook for the businesses we are in appears good. The U.S. defense portion of it is expected to continue growing at the present, if not at an increasing, level because we are in the areas that are on the upswing, especially electronic warfare and communications. Our international markets likewise should continue expanding. However, the challenge will be for us to obtain a reasonable share of this business.

We face other challenges and concerns. One of these is the ever-present threat of inflation. While the inflationary spiral has been checked somewhat in the United States, it could resurge since inflation has been increasing at a much higher rate in other parts of the world.

A continuing personal concern of mine is the growing anti-business sentiment and increasing interference by the Federal

through congressional legislation and regulations by various agencies, in the affairs of private business. This threatens to severely curtail the ability of businesses to earn the profits necessary to finance the capital investment and future growth required to provide employment for the millions entering the job market each year.

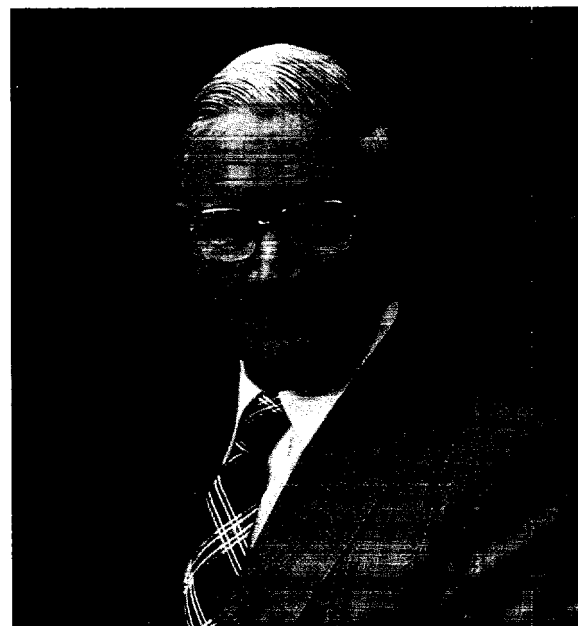
Another concern that more directly affects every American is this country's future defense posture. Every reliable intelligence estimate reported in the media indicates the Soviet Union is indeed devoting a greater proportion of its Gross National Product to defense efforts than we had originally been led to believe. One recent briefing of the Congress by our military intelligence agency translated this fact into a current Soviet military production program at least 140 percent of the total U.S. defense effort.

All indications point to increased emphasis by Soviet leaders on major weapons systems, including ballistic missiles, electronic equipment and high-performance tactical and strategic aircraft. The unsettling growth of the Russian Navy and the Soviet's anti-satellite development program have been widely chronicled of late.

This presents ominous overtones to the United States and the rest of the

It is dangerously unrealistic for us to rest on past laurels and to ignore the clear message from the Soviets as to what they can and will do in the years ahead. We *must* maintain technological superiority!

If growing government regulation of business and the status of our national security concern you, I urge you to voice your concerns by communicating them to your congressmen and senators in Washington.



John W. Dixon

John W. Dixon
*Chairman of the Board
and President*

March 18, 1977



E-Systems, Inc. • Financial Report 1976

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10 Officers

John W. Dixon
Chairman of the Board and President

Eugene E. Berg
Vice President-International Customer Relations

James W. Crowley
Vice President, Secretary and General Counsel

E. G. Keiffer
*Vice President and General Manager,
Garland Division*

Dr. Lloyd K. Lauderdale
Vice President-Research and Engineering

Robert L. Lewis
Vice President and Controller

Robert H. Mitchell
President, Production Electronics Group

James M. Osborne
Vice President-New Business Development and Planning

Virgil B. Pettigrew
Vice President-Finance and Chief Financial Officer

Joe W. Russell
Vice President-Corporate Relations

Kenneth M. Smith
President, Aircraft Systems Group

Robert C. Smith
Vice President-Domestic Customer Relations

David R. Tacke
President, Electronics Systems Group

Harry L. Thurmon
Vice President and Treasurer

Directors

John W. Dixon
President, E-Systems, Inc., Chairman

E. F. Buchring
Retired E-Systems, Inc., Executive

Dr. LeVan Griffis
Vice Provost, Southern Methodist University

Thomas A. Lewis
*Vice President, Moseley, Hallgarten & Estabrook Inc.,
Investment Bankers*

Robert H. Mitchell
President, Production Electronics Group, E-Systems, Inc.

William F. Raborn
Vice Admiral, USN (Ret.), Consultant to E-Systems, Inc.

Kenneth M. Smith
President, Aircraft Systems Group, E-Systems, Inc.

David R. Tacke
President, Electronics Systems Group, E-Systems, Inc.

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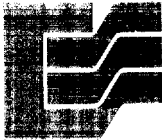
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E-SYSTEMS INC.

John W. Dixon
*Chairman of the Board
& President*

Winter, 1977

Dear Fellow Stockholders:

A person's or an organization's good name is a valuable asset. Yet a good reputation is fragile and easily damaged by rumor, innuendo, and irresponsible comment. Our Company and its superior reputation for integrity, trustworthiness, quality products, and honorable conduct has recently been unjustifiably put into question in the news media.

E Systems has been drawn into the so-called "Korean scandal" because of our military radio business with the government of the Republic of South Korea. In connection with this work, certain distinguished Korean citizens were selected to be our in-country Korean representatives, giving us high-level visibility and assistance in the course of our performing the Korean radio contracts. The individuals were checked with the American Embassy in Seoul for reputation and integrity. These distinguished individuals elected to call themselves the "Korean Research Institute" (KRI) in their dealings with us. We entered into a formal, written agreement with KRI providing for payment of a commission not to exceed 5% of the total sales of military radios and related products to Korea. This agreement has been extended and amended from time to time with the result that net commissions paid through a recent date are approximately \$1.4 million, or somewhat less than 5% of the approximately \$32.7 million of relevant business done with the Korean government.

Our initial agreement with KRI was recorded in the public records of the Public Procurator's Office in Seoul, Korea, in 1973. The existence of the arrangement has been known to cognizant persons within the government of South Korea and our customer, which is the Ministry of National Defense of the Korean government.

From our experience in complex, high technology, international business, the Korean radio program has been exceptionally well-managed by the government of Korea and its designated Korean co-producer company, Oriental Precision Company, well-coordinated in those aspects where we dealt with our own government's personnel and their Korean counterparts, and successful from a business viewpoint. The end result is that a valued ally of the United States has achieved a substantial independent capability in tactical military communications, an absolute necessity to the defense of Korea's 100-plus mile border with communist North Korea. We have taught the Koreans to produce fine quality tactical radios in their own country using their own resources, thus improving their much-needed defense capabilities while at the same time providing business and jobs for us in the U.S. Ultimately this capability will reduce the requirement for U.S. aid to our ally and the attendant cost to U.S. taxpayers. I do not want us to lose sight of these impacts and results of our work for the government of Korea.

As is our practice in dealing with international representatives, upon the execution of the agreement with KRI we required KRI to establish and advise us of a clear-cut method for payment of both an \$100,000 initial payment to them and subsequent commissions aggregating the total mentioned above. KRI established an account with a bank in Los Angeles and designated a Korean citizen resident of the Los Angeles area, whom we did not otherwise know, as KRI's representative to receive notifications concerning payments and invoicing. At a later time, KRI notified us they had appointed a new U.S. representative, an American citizen of Korean extraction. KRI had the right under our agreement to appoint or to change their designated representative at any time.

In response to an SEC inquiry in early 1976, we furnished a synopsis of information and partial internal records on commission payments, representatives and consultants, including information on KRI. We learned later that the SEC had ordered a private investigation involving KRI when others informed us of subpoenas issued to one of our banks and the two individuals designated by KRI as their in-country representatives. In November 1976 the SEC asked us to identify Company witnesses and to be prepared to produce Company documents concerning KRI, with the apparent primary thrust of determining: (1) what KRI or its representatives did with the moneys paid into the KRI bank account by E-Systems, and (2) did E-Systems employees or officers have knowledge of KRI's disposition of the moneys it received as commissions.

We subsequently furnished the SEC all of our records on KRI and produced witnesses voluntarily for testimony. On December 8, 1976, we learned that the SEC had filed a lawsuit against the two U.S. residents, designated by KRI as its in-country representatives, to compel their testimony in response to an SEC subpoena. E-Systems was not a party to, and has not participated in, that lawsuit despite the inference given in the news reports that E-Systems has been "accused" of something in that lawsuit. We also learned at the end of January 1977 that the SEC had filed a similar lawsuit in the District of Columbia to compel testimony from three named individuals, whom we do not know.

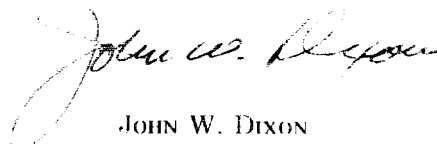
The SEC's "private investigation" could continue until the SEC staff is in a position to make recommendations to the Commission. We believe that the outcome of the SEC proceeding will in itself have no material, adverse effect on E-Systems or its business prospects. It is not possible for us to predict what allegations may ultimately be leveled at E-Systems, its officers or employees, if any allegations are made at all.

We do not know what KRI or any persons affiliated with it did with the commission moneys. We do not know of any illegal, improper or questionable use of the commission funds by KRI. E-Systems does not believe that our Company or its employees have been involved in any misuse of such funds. Both our internal review and the external information which we have available indicate no E-Systems participation in any illegal campaign contributions, bribes to U.S. officials or others, or kickbacks to E-Systems' employees or customers.

It continues to be your management's policy to cooperate fully with the SEC in its investigation as we have from the beginning. We have been treated fairly by the SEC in this investigation, however unfairly we feel some have treated us in reporting and speculating on the facts by linking us with activities completely unrelated to our actions and relationship with KRI.

I want to emphasize that we do not expect our business to be materially adversely impacted by the investigation, any allegations that may arise therefrom, or the ultimate conclusion following whatever proceedings result from those allegations. We do feel the Company has suffered from what we view as unfair reports, innuendos, and attacks by those whose interests may be adverse to the Company, and those whose interests may be adverse to the government of the Republic of South Korea and the government of the United States of America. These attacks may continue, and I ask you as one of my fellow stockholders to withhold your judgment until actual facts are produced instead of rumor and speculation. I will communicate with you further if we have any significant developments.

Very truly yours,



JOHN W. DIXON

FEB 21 1977

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FEB 27 1977

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New England News

Job Payoff Hinted After Defense Pact

NEW BEDFORD (AP) — The Texas firm that beat out Bristol Electronics for a Defense Department contract now has on its payroll the former Army official who supervised the controversial contract award. The Standard-Times reported yesterday.

The New Bedford firm lost it on the \$2.9-million contract for field radios to E-Systems, Inc., of Dallas in March, 1974, after the Army ordered bids to be submitted three times. Bristol was the low bidder for the first two times.

"The many unusual circumstances surrounding the request for a third round of price quotations and the hurried award thereafter to E-Systems cannot help but arouse suspicions that someone in the Department of Defense was intent upon favoring E-Systems," the paper quoted an August, 1976, report by the House Committee on Government Operations as saying.

The paper also said the contract was later expanded to \$11 million without additional bids being sought.

Ex-Army Official

Eugene E. Berg, now a vice president at E-Systems, was assistant secretary of the Army for logistics and installations when the contract was awarded, the newspaper said. He could not be reached yesterday to comment on questions of conflict of interest raised by the newspaper.

Berg reportedly left the

Army in July, 1974, but it could not be determined yesterday when he joined E-Systems. His Army post was filled in October, 1974, by Harold L. Brownman, an E-Systems vice president who went to work for the Central Intelligence Agency in 1973.

According to The Standard-Times, the Army sought bids for 6,990 mobile field radios in November, 1973. Bristol Electronics was the low bidder of five firms, while E-Systems was third.

New Bids Asked

However, instead of giving the contract to Bristol, the Army requested new bids, saying a specification change altered the contract. The congressional report described the change as "minor" and the Army later testified it was "not substantive in terms of intent, procedure or effort required."

In the second round of bidding, Bristol was again lowest, while E-Systems' bid was second, \$5 a unit below the third-place bid.

The Army again changed the contract and requested a third round of bids on March 8, 1974. E-Systems was lowest, \$5 a unit below Bristol's second-place bid, and was awarded the contract six days later.

"The firm that beat out New Bedford's Bristol Electronics for a contract worth millions of dollars now has on its payroll the former Army official who supervised the questionable contract award.

"That same Texas firm that toppled Bristol has links to the Central Intelligence Agency and now figures in an investigation by the Securities and Exchange Commission into possible congressional pay-offs." — The Standard-Times.

An exclusive report by The Standard-Times' Gerald FitzGerald pinpointed an entire web of apparent conflicts of interest and other forms of extremely questionable conduct.

Bristol Electronic's successful — and obviously well-situated — competitor is E-Systems of Dallas. The E-Systems story reads something like this:

—Bristol Electronics twice was the low bidder on a \$2.9-million contract to supply the Army with radios.

—The Army twice threw out the bids and altered the specifications.

—E-Systems was awarded the contract the third time around. Later the contract was expanded to a total of \$11-million.

—House investigators looking into the situation as a result of Bristol's protest said, "the many unusual circumstances . . . and the hurried award thereafter to E-Systems cannot help but arouse suspicions that someone in the Department of Defense was intent upon favoring E-Systems."

The Army official responsible, Eugene E. Berg, now is an E-Systems vice-president.

A former E-Systems executive, named Harold Brownman, took over the Army for logistics and communications.

—During Brownman's tenure at the Pentagon (1974-76), the Dallas firm received \$23-million in government contracts — or an average of 60 per cent of the firm's work in 1974 and 1975.

In addition, public confidence in the federal government in general and the probity of its procurement procedures are unlikely to rise in the face of other late-breaking developments.

For instance, E-Systems, according to an official 1974 report, held \$4.7-million worth of Central Intelligence Agency-funded contracts and the CIA had "an interest in" other federal contracts with the firm totaling \$105-million.

The Standard-Times has learned a former head of the CIA, retired Vice-Admiral William F. Raborn Jr., is on the firm's board of directors.

And another one of its vice-presidents formerly was the CIA's deputy chief of the Directorate of Science and Technology.

The House Committee on Government Operations conducted the investigation of the Bristol Electronics contract loss — but then the entire matter more or less died away as far as congressional interest was concerned.

We wonder why Massachusetts congressional stalwarts — like House Speaker "Tip" O'Neill, Senators Edward M. Kennedy and Edward W. Brooke and U.S. Representative Gerry E. Studds — let the matter just fade away.

We also wonder why we haven't heard from them by now that Congress — at their insistence — has launched a thorough review of the recent developments outlined here.

However, knowing the ways of Congress, we also call on President Carter to order an in-depth Justice Department investigation of this entire shabby situation.

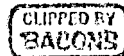
Launch an inquiry

*John - Looks like
an editorial.
- B.*

THE STANDARD-TIMES
NEW BEDFORD, MASS.

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MAR 14 1977



E-Systems caper

"The firm that beat out New Bedford's Bristol Electronics for a contract worth millions of dollars now has on its payroll the former Army official who supervised the questionable contract award" — The Standard-Times.

U.S. Rep. Gerry E. Studds, D-Mass., agrees with The Standard-Times that this situation demands a two-pronged investigation.

Accordingly, the congressman has written to the Justice Department and the House Government Operations Committee, asking for independent investigations of the awarding of an \$11-million contract to E-Systems of Dallas.

As reporter Gerald FitzGerald outlined in an exclusive report in this newspaper last month, there certainly seems to be enough material on hand to justify several additional inquiries.

The bare bones of the story:

—Bristol Electronics twice was the low bidder on a \$2.9-million contract to supply the Army with radios.

—The Army twice threw out the bids and twice altered the specifications.

—E-Systems was awarded the contract the third time around. Later, the contract was expanded to \$11-million.

The Army official responsible, Assistant Secretary Eugene E. Berg, now is an E-Systems vice-president. The man who succeeded Berg as assistant secretary is a former E-Systems executive.

As Representative Studds noted the other day, if this sort of shuttling back and forth between government agencies and the industries they deal with is not contrary to government policy or regulation, it certainly should be.

President Carter, in fact, has proposed that government employes refrain from entering private corporations in related fields for at least two years after leaving federal service. Congress should explore, at some length the practicality of giving the President's proposal legal status.

Studds' interest in the Bristol Electronics matter is commendable. We hope the congressman will persist in a full-fledged followup of both the Justice and House investigations until every facet of the situation is explored.

In the interim, we wonder why Massachusetts' other congressional stalwarts — including House Speaker O'Neill and Senators Kennedy and Brooke — haven't joined Studds in demanding a thorough review of the matter.

Los Angeles Times

LARGEST CIRCULATION IN THE WEST, 1,020,479 DAILY, 1,289,183 SUNDAY

FRIDAY, FEBRUARY 18, 1977

\$1 Million Influence Probe Focuses on 2 L.A. Koreans

BY ROBERT L. JACKSON

Times Staff Writer

Federal investigators probing the activities of two Korean consultants in Los Angeles have uncovered a flow of \$1 million involving the CIA, Korean intelligence officials, a Cayman Islands bank and alleged payments to members of Congress.

In a case that is still months from completion, attorneys for the Securities and Exchange Commission are focusing on the affairs of Howard P. Lee and Jong Ho Yoo, proprietors of a mysterious consulting firm known as the Korean Research Institute.

No registration records can be found on KRI in Sacramento or Los Angeles County, although a related firm, Howard Enterprises Co., uses a small grocery store in Culver City as its address. The market's manager, Paul Lee, says he never heard of Howard Lee, Yoo or Howard Enterprises.

Lee and Yoo have declined repeated requests for interviews. But they

denied any wrongdoing through their attorneys.

Despite the firms' shadowy nature, KRI and Howard Enterprises—according to a Times investigation—are suspected by the SEC of being the keystone in an international money flow that started in South Korea and may have wound up as bribes on Capitol Hill.

In between, the Central Intelligence Agency and officials of Korea's counterpart—the KCIA—have played a role.

The Lee-Yoo case, The Times learned, represents a broadening of U.S. government interest in Korea's alleged efforts to buy influence in Washington. It also bears similarities to an entirely separate and previously undisclosed investigation by the Los Angeles County district attorney's office into the affairs of Song Joo Hung,

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INFLUENCE PROBE

Continued from First Page

owner of Eurasia Travel Service on Wilshire Blvd.

It was learned that Hong, who pleaded innocent Thursday in Los Angeles Superior Court to charges of grand theft from American Express Co., is under investigation here for allegedly funneling thousands of dollars to persons in the Washington area.

In recent months, Hong was reportedly seen several times at Los Angeles International Airport with Tongsun Park, the high-living Korean entrepreneur who is the center of a federal grand jury inquiry into Washington influence-buying.

A source close to the district attorney's investigation said that allega-

tions involving Park figure prominently in the probe. In the American Express case, Hong has been charged with stealing more than \$200,000 by selling travelers checks and keeping the proceeds.

Fearing such a scheme may be tied to alleged bribe-giving by Koreans in Washington, American Express is planning to audit the accounts of several other Korean travel agencies with which it deals, the source said.

Hong's lawyer, E. Michael Kruse, declined comment on reports that Hong has sent substantial funds to Washington-area Koreans. Asked if Hong knew Tongsun Park, Kruse replied, "Not to my knowledge."

Tongsun Park's name, it was

learned, has also figured in the federal probe of Lee and Yoo.

Virgil B. Pettigrew, a vice president of E-Systems, Inc., a Dallas "electronics warfare" firm that paid KRI more than \$1 million in commissions, said that in 1973 Park originally tried to represent the firm in its sale of field radios to the South Korean army.

But Park's aggressive approach offended the company's board chairman, John Dixon, Pettigrew said.

It was learned that Park's name also was found in E-Systems correspondence obtained by the SEC.

A government document examined by The Times shows that E-Systems has been involved for years with the CIA. The publicly-traded company, which had \$320 million in sales last year, manufactures exotic equipment like radar detectors and jammers, satellite communications antennas

and supersecret devices under the heading of "electronics warfare."

In 1975 it purchased Air Asia, an affiliate of a CIA proprietary company known as Air America. E-Systems does maintenance work on the presidential aircraft Air Force One, and last year was awarded a contract to install and man the U.S. government's early-warning peace-keeping station in the Sinai Desert.

"E-Systems has ongoing CIA-funded contracts amounting to \$4.7 million, and CIA has an interest in other U.S. government contracts with E-Systems, Inc., worth \$105 million," according to a 1974 government report.

How such a large and apparently well-connected company came to contract for the services of Lee and Yoo—with their grocery store address—remains a puzzle to investigators.

However, The Times learned that

both Lee and Yoo are related to Col. Lee Kyoo-Hwan of the Korean Embassy in Washington. It was Col. Lee who signed off most radio parts shipped to Korea before E-Systems could receive payments under an \$8 million contract that South Korea later renewed for an additional \$29 million.

Col. Lee, who is listed as assistant military attache on the embassy's roster, is reportedly a high official of the KCIA. Korean sources said that he worked in KCIA headquarters in Seoul from 1963 to 1966. He then headed South Korean army intelligence operations in South Vietnam and later commanded a group of bodyguards for South Korean President Park Chung Hee, according to these sources.

Col. Lee, who is Howard Lee's uncle and Yoo's brother-in-law, declined to see a reporter who visited the embassy.

He later said through a spokesman that he was Howard Lee's uncle but had "no relationship (to Lee) other than that." He said he had played "no role whatsoever with E-Systems"—contrary to the statements of company officials—and did not know how Howard Lee became a consultant to the corporation.

Pettigrew, the E-Systems official, said he had never heard that Lee and Yoo were related to Col. Lee. He said the Los Angeles consultants were chosen from a list of names the American embassy in Seoul provided when E-Systems said it wanted to hire representatives to handle military radio sales to Korea.

All E-Systems records relating to KRI have been furnished to the SEC, he added. Pettigrew said he thought KRI was a marketing consultant firm based in Seoul, but he said he doubted it had clients other than E-Systems.

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\$1 Million Influence Probe Focuses on Koreans

Continued from 20th Page

"We have no knowledge of where the money paid KRI was spent by KRI or its personnel," Pettigrew said. He said it amounted to more than \$1 million.

The SEC, in court papers filed here and in Washington, said, "It appears that the respondents Lee and Yoo may have participated in the illegal payment of monies in the form of bribes to members of the Congress of the United States or other public officials in connection with the sale of military equipment by E-Systems, Inc., to the Republic of Korea."

The SEC said it was trying to determine whether E-Systems, as a publicly held company, "may have used corporate funds for illegal purposes" without disclosing it to stockholders.

The SEC's theory is that such payments might have helped ensure congressional support for South Korea, an indirect beneficiary of E-Systems.

According to knowledgeable sources, E-Systems made payments to Lee and Yoo directly into a KRI account at a Bank of America branch in Los Angeles. Funds were then transferred from that account into one or more other accounts, reportedly including a U.S. bank's branch in the Cayman Islands, a British crown colony south of Cuba.

"The money began to disperse just when the SEC started nosing around last summer," one source said. "Fortunately, the Caymans bank was a branch of a U.S. bank, which had to maintain records in the U.S. The SEC got them."

Court records contain the further allegation that Lee and Yoo sent funds to Jong Ho Kim and his wife, Myung Jac Kim, of Alexandria, Va., a Washington suburb, and to Young C. Chae, a Washington resident. The records and correspondence from the Kims and

Chung to determine the purpose of these payments.

Although E-Systems has cooperated in the federal inquiry, SEC attorneys Richard Routman and Gary Lynch told U.S. Dist. Judge Warren J. Ferguson in court here this week that Lee and Yoo had resisted subpoenas for their records for eight months.

Defense attorneys Bryan O'Neill and Alan J. Weil have argued that the SEC is invading the privacy of Lee and Yoo and is improperly engaged in a criminal investigation.

"Tell me about Mr. Lee and Mr. Yoo," Ferguson said.

"I'm not sure about the nature of their business activity," Weil replied. "I believe one owns a grocery store. I'm not sure about the other."

Both men are in their 40s. Court records show Lee is a naturalized U.S. citizen and Yoo as a registered alien.

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